



STRATEGIC^{13e} MANAGEMENT

An Integrated Approach
Theory & Cases

HILL • SCHILLING • JONES

CHAPTER 5

Business-Level Strategy

LEARNING OBJECTIVES (1 of 2)

- Explain the difference between low-cost and differentiation strategies
- Articulate how the attainment of a differentiated or low-cost position can give a company a competitive advantage
- Explain how a company executes its business-level strategy through function-level strategies and organizational arrangements

LEARNING OBJECTIVES (2 of 2)

- Describe what is meant by the term “value innovation”
- Discuss the concept of blue ocean strategy, and explain how innovation in business-level strategy can change the competitive game in an industry, giving the innovator a sustained competitive advantage

BUSINESS-LEVEL STRATEGY

- **Business-level strategy**
 - Overall competitive theme of a business.
 - Way a company positions itself in the marketplace to gain a competitive advantage.
 - Different positioning strategies that can be used in different industry settings.

LOWERING COSTS

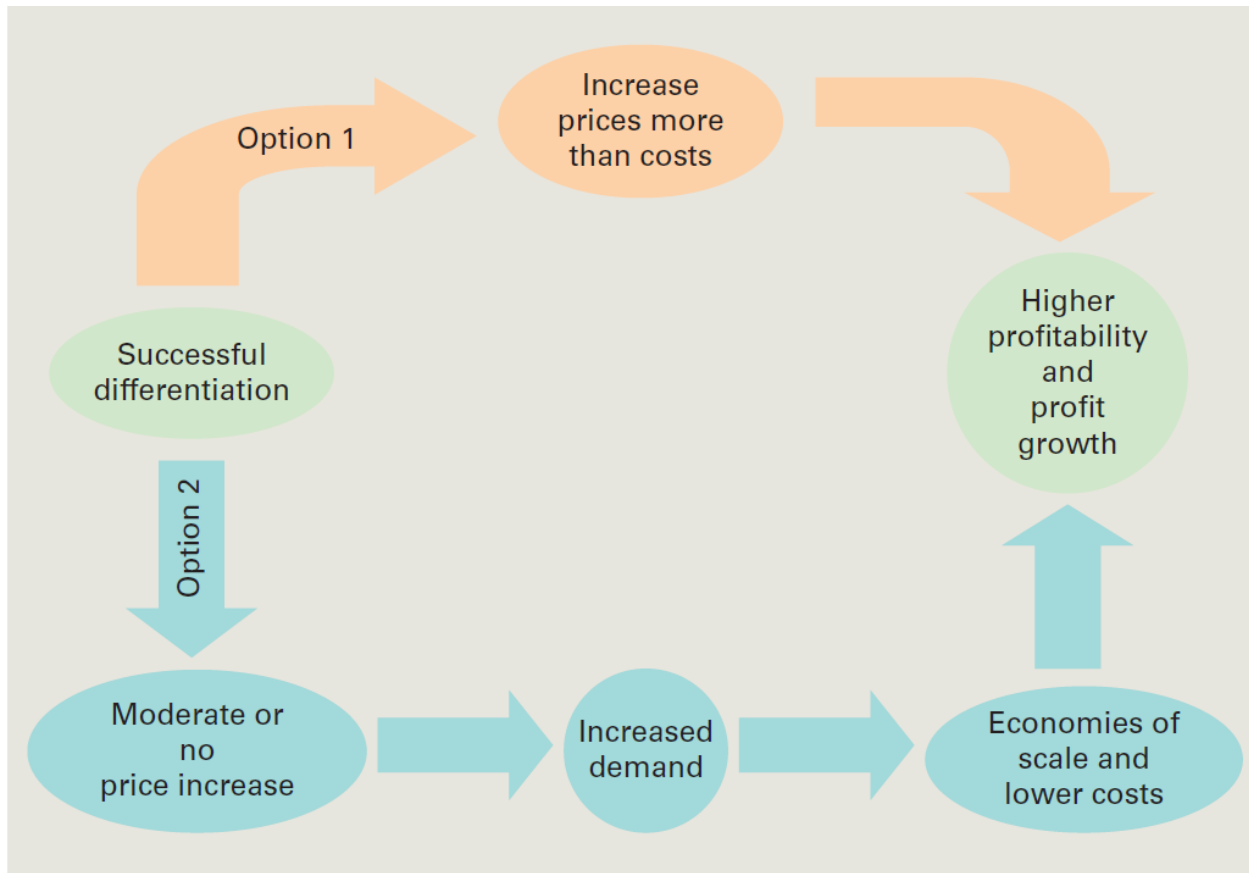
- Enables a company to:
 - gain a competitive advantage in commodity markets.
 - undercut rivals on price.
 - gain market share.
 - maintain or increase profitability.

DIFFERENTIATION (1 of 2)

- Distinguishing oneself from rivals by offering something that they find hard to match.
- Product differentiation is achieved through:
 - superior reliability, functions, and features.
 - better design, branding, point-of-sale service, after sales service, and support.
- Advantages
 - Allows a company to charge a premium price.
 - Helps a company to grow overall demand and capture market share from its rivals.

DIFFERENTIATION (2 of 2)

Figure 5.1 Options for Exploiting Differentiation



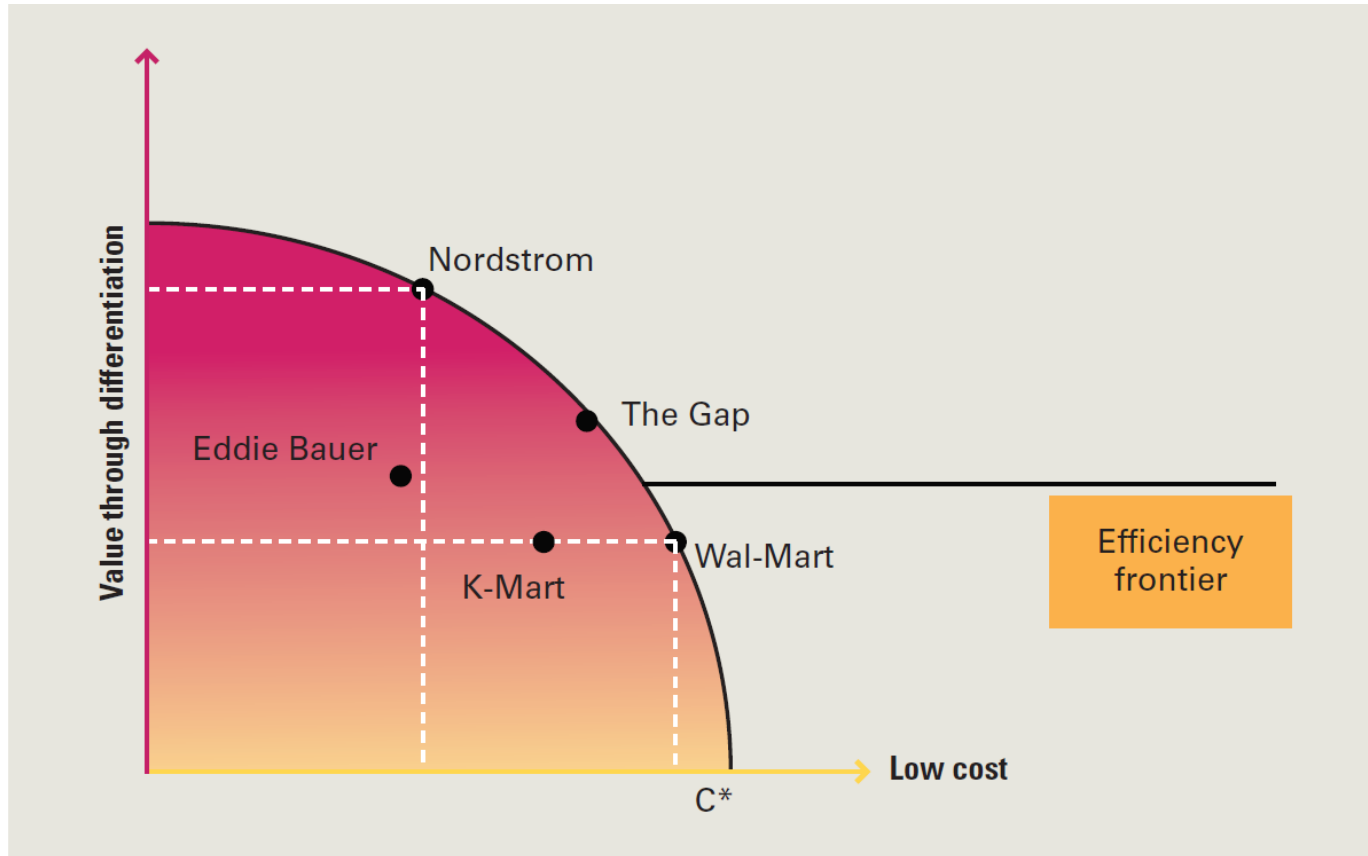
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THE DIFFERENTIATION–LOW-COST TRADE-OFF (1 of 3)

- Efficiency frontier
 - Shows all the positions a company can adopt with regard to differentiation and low cost.
 - Has a convex shape because of diminishing returns.
- Multiple positions on the differentiation-low cost continuum are viable.
 - Have enough demand to support an offering.

THE DIFFERENTIATION–LOW-COST TRADE-OFF (2 of 3)

Figure 5.2 The Differentiation–Low-Cost Trade-off



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THE DIFFERENTIATION–LOW-COST TRADE-OFF (3 OF 3)

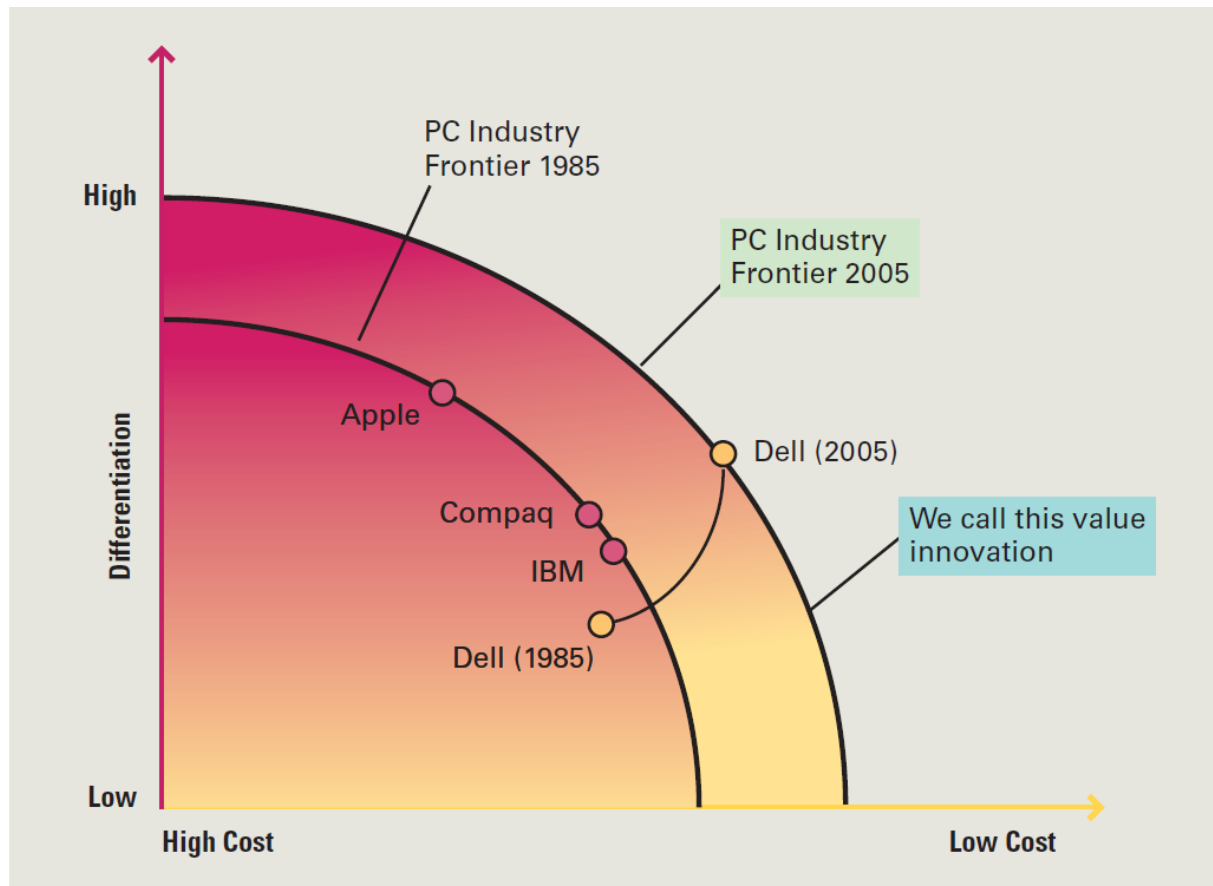
- To get to the efficiency frontier, a company must:
 - pursue the right functional-level strategies.
 - be properly organized.
 - ensure its business-level strategy, functional-level strategy, and organizational arrangement align with each other.

VALUE INNOVATION (1 OF 2)

- **Value innovation** - Occurs when innovations push out the efficiency frontier in an industry, allowing for greater value to be offered through superior differentiation at a lower cost than was thought possible.
- Enables a company to outperform its rivals for a long period of time.

VALUE INNOVATION (2 OF 2)

Figure 5.3 Value Innovation in the PC Industry



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MARKET SEGMENTATION

- **Market segmentation** - Decision of a company to group customers, based on important differences in their needs, to gain a competitive advantage.
- **Standardization strategy** - Producing a standardized product for the average customer, ignoring different segments.
- **Segmentation strategy** - Producing different offerings for different segments, serving many segments or the entire market.
- **Focus strategy** - Serving a limited number of segments or just one segment.

COMPARISON OF MARKET SEGMENTATION APPROACHES

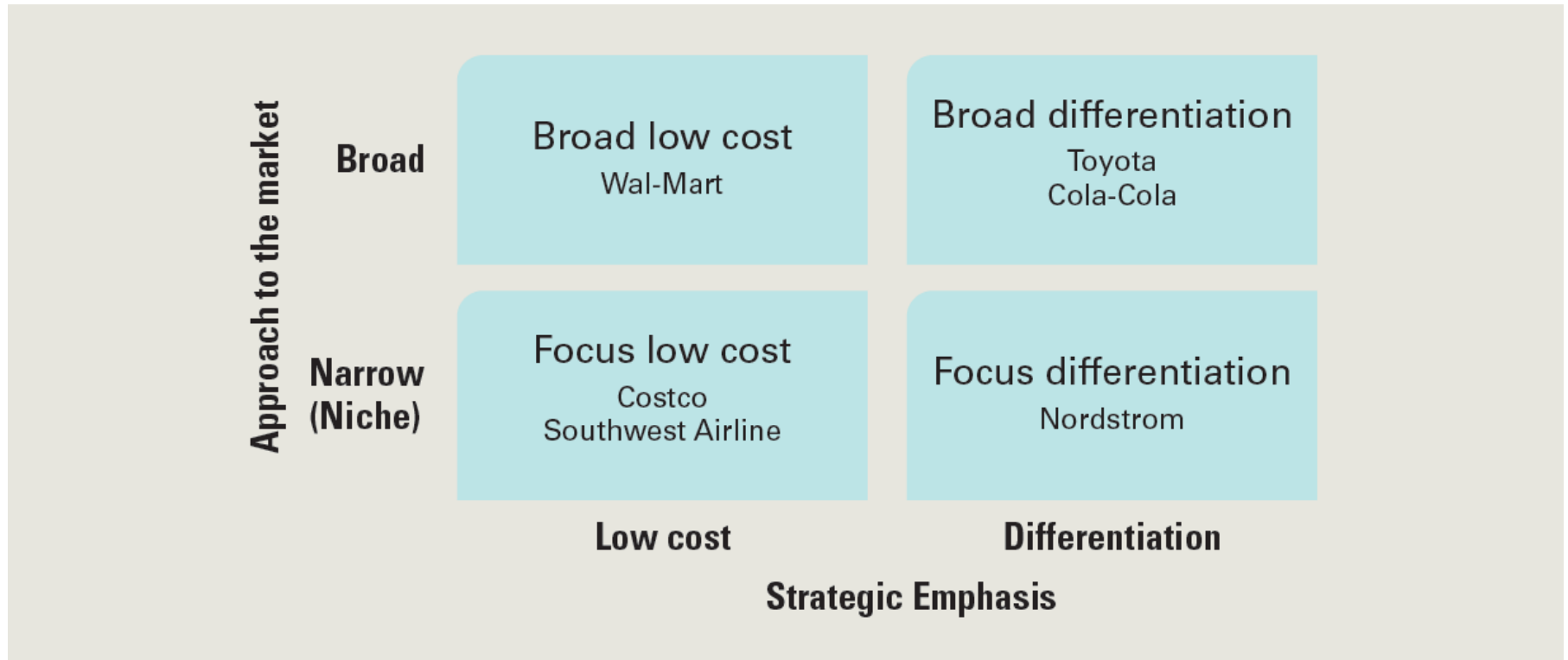
Standardization strategy	Segmentation strategy	Focus strategy
<ul style="list-style-type: none">▪ Associated with lower costs than a segmented strategy▪ Attempts to attain economies of scale through high-volume sales	<ul style="list-style-type: none">▪ Involves customization of product offerings, which drive up costs as:<ul style="list-style-type: none">▪ achieving economies of scale is difficult.▪ production and delivery costs tend to be high.	<ul style="list-style-type: none">▪ Have a higher cost structure as:<ul style="list-style-type: none">▪ new product features and functions need to be added.▪ attaining economies of scale is difficult.

BUSINESS-LEVEL STRATEGIES (1 of 2)

- **Generic business-level strategy** - Gives a company a specific form of competitive position and advantage in relation to its rivals.
- **Broad low-cost strategy** - Lowers costs to lower prices and still make a profit.
- **Broad differentiation strategy** - Differentiates a company's product in some way.
- **Focus low-cost strategy** - Targets a niche and tries to be the low-cost player in that niche.
- **Focus differentiation strategy** - Targets a niche and customizes offerings with features and functions.

BUSINESS-LEVEL STRATEGIES (2 of 2)

Figure 5.4 Generic Business-Level Strategies



BUSINESS-LEVEL STRATEGY, INDUSTRY, AND COMPETITIVE ADVANTAGE

Low-cost companies

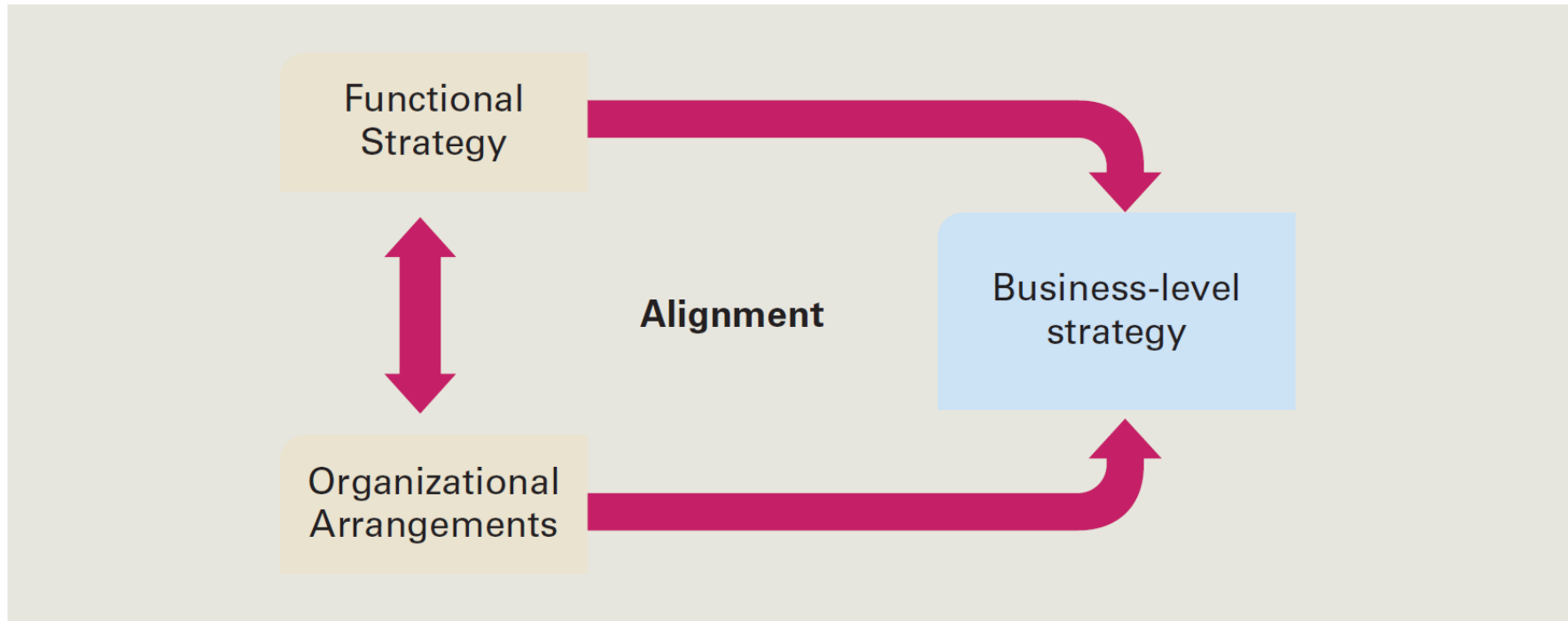
- Charge low prices and still make profits
- Absorb cost increases from suppliers
- Offer deep discount prices for buyers

Differentiated companies

- Withstand pricing pressure from powerful buyers and increase prices without buyer resistance
- Absorb price increases from suppliers and pass them to customers without losing market share
- Withstand substitute goods, as a result of brand loyalty

IMPLEMENTING BUSINESS-LEVEL STRATEGY

Figure 5.5 Strategy Is Implemented Through Function and Organization



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LOWERING COSTS THROUGH FUNCTIONAL STRATEGY AND ORGANIZATION (1 OF 2)

- Achieve economies of scale and learning effects.
- Adopt lean production and flexible manufacturing technologies.
- Implement quality improvement methodologies to produce reliable goods.
- Streamline processes.
- Use information systems to automate business process.

LOWERING COSTS THROUGH FUNCTIONAL STRATEGY AND ORGANIZATION (2 OF 2)

- Implement just-in-time inventory control systems.
- Design products with a focus on reducing costs.
- Increase customer retention.
- Ensure that the organization's structure, systems, and culture reward actions that lead to:
 - higher productivity.
 - greater efficiency.

DIFFERENTIATION THROUGH FUNCTIONAL-LEVEL STRATEGY AND ORGANIZATION (1 OF 2)

- Customize product offering and marketing mix to different market segments.
- Design product offerings that have a high perceived quality regarding their:
 - functions.
 - features.
 - performance.
 - reliability.
- Handle and respond to customer queries and problems promptly.

DIFFERENTIATION THROUGH FUNCTIONAL-LEVEL STRATEGY AND ORGANIZATION (2 OF 2)

- Focus marketing efforts on:
 - brand building.
 - perceived differentiation from rivals.
- Ensure employees act in a manner consistent with the company's image.
- Create the right organizational structure, controls, incentives, and culture.
- Ensure that the control systems, incentive systems, and culture align with the strategic thrust.

BLUE OCEAN STRATEGY (1 of 2)

- Successful companies build their competitive advantage by redefining their product offering through value innovation.
- Creating a new market space.
- Blue Ocean - Wide open market space where a company can chart its own course.

BLUE OCEAN STRATEGY (2 of 2)

- To redefine its market and create a new business-level strategy, a company must:
 - eliminate factors that rivals take for granted, and reduce costs.
 - reduce certain factors below industry standards, and lower costs.
 - raise certain factors above industry standards, and increase value.
 - create factors that rivals do not offer, and increase value.

APPENDIX

NOTE TO INSTRUCTOR: Choose from the following questions (also found in the text at the end of the chapter) to conduct in-class discussions around key chapter concepts.

DISCUSSION:

- What are the main differences between a low-cost strategy and a differentiation strategy?



DISCUSSION:

- Why is market segmentation such an important step in the process of formulating a business-level strategy?



DISCUSSION:

- How can a business-level strategy of (a) low cost and (b) differentiation offer some protection against competitive forces in a company's industry?



DISCUSSION:

- What is required to transform a business-level strategy from a concept to a reality?



DISCUSSION:

- What is meant by the term *value innovation*?
Can you identify a company not discussed in the text that has established a strong competitive position through value innovation?

