

Figure 6.18 The combination of Porter's and Miles' and Snow's typology.

Source: Miles, Snow, 1978, 24.

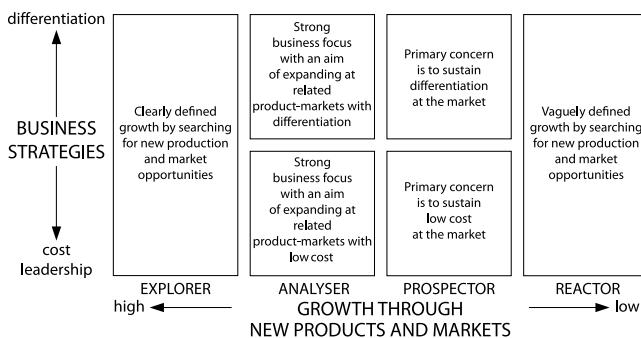


Figure 6.19 Combined typology of generic strategies.

Source: Boyd, Walker, 1999, 10.

The stuck-in-the-middle position

Companies can combine overall cost leadership with differentiation. When compared with companies following a single generic strategy (overall cost leadership or differentiation), companies following both strategies (overall cost leadership or differentiation) are capable of creating sustainable competitive advantage in a better way.

According to Momcilo Milisavljevic (2012), a company has the two following options to utilise the low-cost advantage in relation to its competition:

- 1 The first option is to utilise the low and opt for low prices and attract a high number of price-sensitive customers which will lead to profitability
- 2 The second option is to use the same prices, but use the option of sustaining the current market share and utilise low which will lead to profitability.

The goal is to deliver superior value to customers (offer price lower than that of the competition while keeping the same quality). Competitive advantage of companies delivering superior value to customers includes lower cost for delivering certain perks, which offers a better competitive position compared with competitors whose products have similar appealing perks.

A company following this strategy places itself close to the stuck-in-the-middle position either by low-quality products with prices above the average or by high-quality products with prices equalling the average. Such a business strategy imposes a simultaneous product price reduction and product quality enhancement. As previously seen, following both generic strategies (overall cost leadership and differentiation) simultaneously can be based on four generic blocs (Thompson et al., 2006).

The manner of following generic strategies will vary across industries with activities that need to be conducted to generate the competitive advantage which the company or strategic business unit is after. Michael Porter (1985) highlights the importance of following one strategy for each industry, otherwise there is a risk of ending up stuck in the middle without the generation of competitive advantage. Each of the three generic strategies requires consistency, whether we are discussing the strategies associated with an entire industry (overall cost leadership or differentiation) or generic strategies associated with a particular segment (focus based on overall cost leadership or differentiation). In practice, a company is stuck in the middle when it produces products with perks valued by the customers.

The stuck-in-the-middle position is a situation when a company or a strategic business unit does not have a consistent generic strategy, i.e. neither of the generic strategies mentioned earlier. Such companies do not have a path for their development. Such companies can survive in stable circumstances for a certain period of time. However, as soon as there are changes, companies without a clear concept and a response to the occurring changes are the first ones to vanish. Changes occurring in the environment create developmental problems both for companies with clearly defined generic strategies and to those without them. However, companies with articulated generic strategies will react following the reasoning behind such strategies, whereas other companies will find themselves stuck in the middle and left to the influence of environmental changes, often becoming its victim.

Companies following a particular generic strategy can end up being stuck due to errors made in the selection of the strategic option, inconsistency in its planning and conducting and similar. In addition, companies which have generated profit at their outset, can find themselves in a bad strategic position due to an unsound resource allocation.

If a company wants to avoid the stuck-in-the-middle position, it must make an effort to follow the three generic strategies (overall cost leadership, differentiation and focus) simultaneously. Successful companies following generic strategies need to make sure that they are aligned with a specific

generic strategy. In addition, companies need to observe their environment to sustain the sources of competitive advantage in accordance with the opportunities and threats arising in an alternating environment.

The basic features of this position include the following (Porter, 1985):

- 1 *A company stuck in the middle loses a large number of customers* – The company passes on high-profitable jobs to company focused on targeted segments or differentiation (e.g. if the customers demand lower prices, the company has to give up profit to compete with companies with lower cost)
- 2 *A company stuck in the middle has got a disordered organisational structure* – The company often encounters conflicts or bad motivation in organisational flows due to problems in the organisational structure (e.g. competitors will quickly erase the generated income from the company which discover a profitable customer)
- 3 *A company stuck in the middle makes fundamental strategic decisions* – A company needs to take measures needed to establish overall cost leadership or differentiation, i.e. focus orientation (e.g. the cost must be at the level of the cost of competitors including the aggressive investments in modernisation).

That is why a company following each of the three generic strategies without realising neither of them, ends up being stuck in the middle. It is a bad position for a company where competitive advantage is not generated. This position guarantees low profitability. However, it should be pointed out that there are several reasons explaining the reasons why a company which is simultaneously following the generic strategies does not properly apply neither of them (Đurićin et al., 2013):

- 1 Overall cost leadership requires a simple control system with clear subordination, whereas differentiation requires multi-divisional and cross-functional relations
- 2 Overall cost leadership focuses on direct cost, whereas differentiation focuses on encouraging creativity
- 3 Overall cost leadership bases its reward system on cost reduction, whereas differentiation encourages innovation and promotions.

Companies stick in the middle will compete at the market without generating competitive advantage. Unlike them, companies applying a generic strategy (overall cost leadership, differentiation or focus) will have a better position in all segments (Figure 6.20).

The left far end of the U-curve represents differentiation (low share and high profitability), whereas the right far end of the U-curve represents cost leadership (high share and high profitability⁹). However, the U-curve (Đurićin et al., 2013) cannot be applied to all industries. Some industries

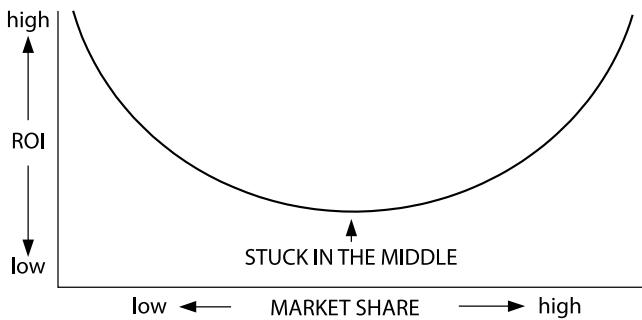


Figure 6.20 The stuck in the middle position.

Source: Porter, 1985, 16.

do not have the option of neither focus nor differentiation, whereas cost are relatively unimportant in some industries due to the features of customer and buyer. These industries usually follow the rule that the relationship between the market share and profitability is inversely proportional. In other industries, the competition is so intense that companies have to follow either cost leadership or differentiation. A company, once stuck in the middle, needs a lot of time and effort to find an exit from such a position. The most common reason leading to getting stuck in the middle is the constant change of generic strategy. Consequently, this position in some branches means that small companies (using focus or differentiation) and big companies (using overall cost leadership) are the most profitable ones, whereas small and medium companies are the least profitable. According to Michael Porter, there are only two ways to generate profit: (1) differentiation, i.e. realising small market share based on selling products with accepted high value and (2) cost reduction, i.e. realising high market share based on selling low-priced products.

Otherwise, companies attempting some third strategy (medium price range or moderate market share) or simultaneously trying to follow the strategies of overall cost leadership and differentiation are bound to end up stuck in the middle. A company, stuck in the middle, can generate attractive profit only when the structure of the industry where it operates is favourable or if its competitors are stuck in the middle. Nevertheless, such a company is less profitable than competitors following one of the generic strategies. The position of the company is the result of not choosing a way in which it will compete. A company following the strategy of focus is usually highly tempted to jeopardise a generic strategy and end up stuck in the middle due to the restriction of the possible sales volume. Such companies are advised to look for opportunities in other industries rather than jeopardise their position in the current one and end up stuck in the middle.

Each generic strategy represents one way of creating sustainable competitive advantage. In order to achieve its strategic goals, a company must combine different forms of competitive advantages. A company must