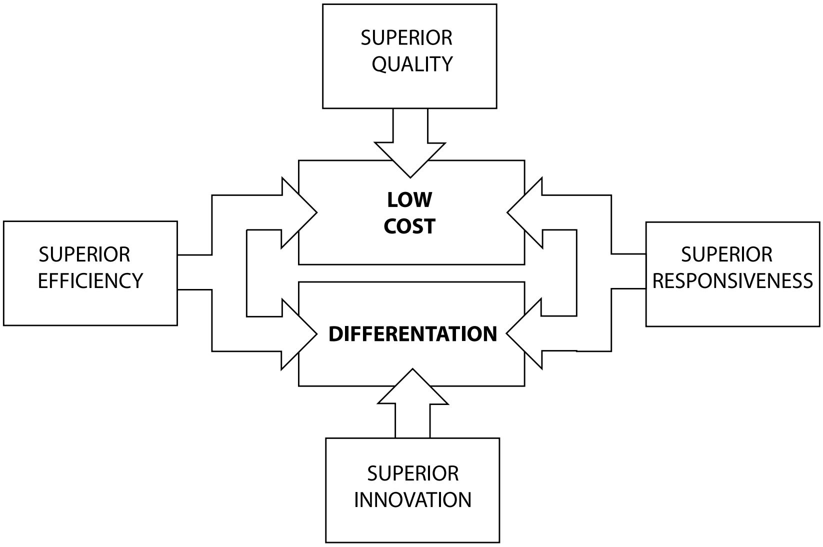

Figure 6.4 The transfer from low cost to differentiation.

Source: Adapted from Hill, Jones, 1999, *113*.

Superior efficiency results in increased company productivity and reduction in production costs. The focus of this generic block of competitiveness is to reduce the company cost.

Superior quality results in decreased company cost or a superior product quality. The focus of this generic block of competitiveness is to reduce the company cost.

Superior innovation results in the reduction of production cost or a more superior way of satisfying needs. The focus of this generic block of competitiveness is to increase the product price.

Superior responsiveness results in an increase of the perceived value and product price increase. The focus of this generic block of competeviness is to increase the product price.

Although generic blocks are perceived separately in the sense of a simultaneous change, there is undoubtedly a vast network of connections among these four generic blocks (e.g. quality can reflect on efficiency, whereas innovativeness can reflect on readability) (Šunje, 2002).

Competitive volume

The second dimension of generic strategies, competitive volume, is important because the company determines the degree of market coverage. An industry is not homogenous because it consists of more or less segments, making it discrepant. Industry segmentation is a broader term than market segmentation.

Market segmentation represents the identification of differences in customer behaviour to form adequate marketing strategies, whereas industry segmentation presents the identification of differences in customer behaviour to form generic strategies (Todorović et al., 2000).

That is why market segmentation is oriented towards marketing activities within a set of activities conducted by the company, whereas industry segmentation is oriented towards all the activities conducted by the company.

The segments forming an industry have the same structure as the industry, with a difference in the influence of competitive forces which varies from one segment to another. In addition, each segment has different suppliers, middlemen (if there are any) and customers. Each segment has an attractive nature which creates opportunities for the generation of competitive advantage (Figure 6.5).

This forms the basis for identifying the following two key variables of industry segmentation (Porter, 1985):

1 Products
2 Customers.

It is important to have an insight into the desired customer category on one side and their needs, on the other, for a company to fulfil their needs at the expected level. This means that all the focus is placed on the customer, his needs and the way of their fulfilment.

The reason for industry segmentation lies in the fact that products and/or customers within each industry have mutual differences implying that there are differences in creating competitive advantage. Hence, industry segments are formed as a consequence of differences in customer behaviour and the difference in the ways of fulfilling their needs. This means that the company focuses on the needs it wants to fulfil, the customer category it wants to contact and the way in which it wants to fulfil their needs. The differences in products or customers influence the formation of industry segments since they inevitably lead to changes in one or more competitive forces.

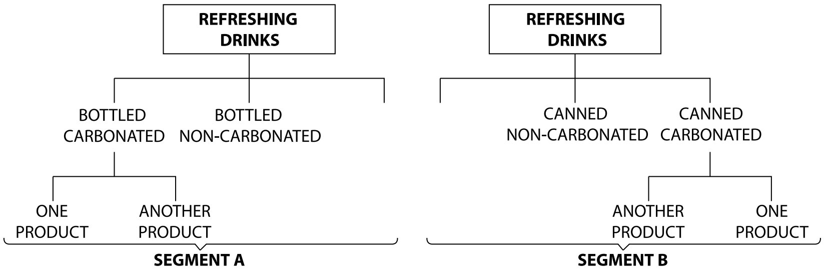

Figure 6.5 Different market segments.

Source: Kotler, 1998, *56*.

Considering these facts, two key issues are raised: (1) Which industry segment to focus on considering the possibility of the presence of a series of different segments? (2) Which segment does have a permanent focus considering the possibility of creating barriers among segments?

The process of determining the industry segment to focus on requires a full-scale industry analysis from the aspect of demand in the terms of understanding the real customer needs to be satisfied which are present at the aimed industry segment (Šunje, 2002).

A company can focus on larger number of segments (more coverage) or on a lower number of segments (less coverage), with an understanding of the industry structure offering more or less space for a subtler market positioning. Following the identification of aimed customers, the preconditions for product profiling have been created based on orientation towards one of the two sources of competitive advantage (low cost or differentiation) with an extension of the highest possible degree of aimed customer satisfaction fulfilment with quality product features (Figure 6.6).

According to Philip Kotler and Kevin Keller (2009), a company will be successful if the value is delivered and if the satisfaction of the aimed customers has been fulfilled. Customers choose between different offers based on their evaluation which represents the highest delivered value.

According to their opinion, value is estimated based on the consideration of tangible and intangible customer benefits and costs. It is actually a combination of quality, service and price which is known as the *customer value triad*.

The value is increased by quality enhancement and it is lowered by price decrease, although some other factors can play a significant role in customer perception, too. An identification of industry segments is needed, which will be used as a foundation for offering the formed product with a goal of satisfying the aimed customers in that segment.

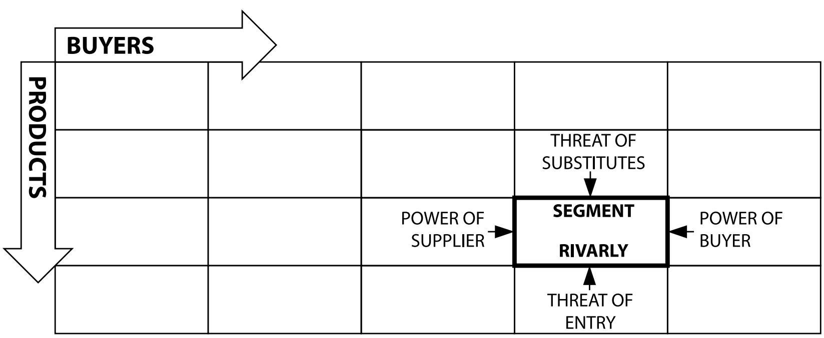

Figure 6.6 Competitive strengths in an industry segment.

Source: Porter, 1985, *235*.