According to Michael Porter (1985), when low cost or differentiation is used as sources of competitive advantage in an industry recognised as a part of competitive volume, the respective competitive strategies are known as overall cost leadership and differentiation. When low cost or differentiation is used as a source of competitive advantage in a segment recognised as a part of competitive volume, then the respective competitive strategies are known as focus based on cost leadership and focus based on differentiation.

Each of the three generic strategies requires fundamentally different paths to competitive advantage combining the type of desired competitive advantage with the range of competitive volume where the company wants to create competitive advantage.

Strategists

Competitive strategies in contemporary conditions are recognised as fundamental decisions prepared and conducted by strategists (Smith, 2003). Due to their highly important rule, strategists cannot afford to prepare bad decisions and implement them well or *vice versa*, to prepare good decisions and implement them poorly. Michael Porter (2004) points out the significance of strategies highlighting that they believe in changes and consider all options and use the reports as a foundation for creating ways of changing the competition. They energise the company while facing competitive challenges.

In addition to planning, strategists act, too, according to Đuričin et al. (2015). If correctly established, the association between planning and acting can result in company prosperity. However, if it is established in a wrong way, it can result in company failure, too. The concept of competitive strategy has two parts:

1 The planning component (preparing decisions)
2 The action component (implementing decisions).

The planning components

The planning component includes preparing decisions which are a starting point for the process of forming the business strategy as the key decision. The interaction between the company and the environment via competitive strategy is the *conditio sine qua non* of decision preparation (Figure 6.8).

When discussing the planning component, Michael (1999) believes that there are two levels of shaping competitive strategies:

a Company strategy (or organisational strategy)
b Strategic business unit strategy (or competitive strategy).

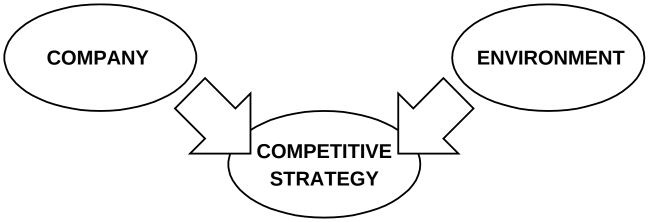

Figure 6.8 Competitive strategy: the manner of company and environmental interaction.
Source: The authors.

The company strategy or company strategy is a business strategy associated with a corporation as a single unit. Considering the company strategy includes the general orientation of the entire company. It could be argued that its essence is to define the portfolio of the strategic business units which will be used to generate competitive advantage. It concerns the manner of defining the market position for strategic business units by the company as a whole. Strategic business unit strategy or business strategy is a strategy of doing business with a particular strategic business unit. Observed within the frame of a strategic business unit, it concerns the general orientation of each strategic business unit. It could be argued that its essence is to determine the path to company competitive advantage through each individual strategic unit. It concerns the way in which strategic business units enhance the market positions.

The company strategy (or corporate strategy) is oriented towards the following question: *How to choose the strategic business units which will be the spotlight of a corporation to a certain degree*? The strategy of the strategic business unit is oriented towards the following question: *How to create competitive advantage in each business where a company competes at the market*?

The strategy of the company (organisational strategy) is present exclusively at the level of the company as a whole, only if the company has a certain degree of diversification with a tendency of diversification continuation. It is used as a foundation for developing the strategies of strategic business units (competitive strategies).

Generally speaking, this implies that company strategies must develop diversified (multi-product) company, whereas competitive strategies must develop non-diversified (single-product) company.

The selection of the appropriate competitive strategy is one of the competitive business strategies developed by Michael Porter (1998) to upgrade the aspect of the company arsenal of strategies. According to Michael Porter (2008), two questions stand out when choosing competitive strategies.

The first question concerns the attractiveness of the industry for above-the-average profitability including the determining factors. The second one concerns the determination of the competitive position of the relative competitive advantage in an industry. Using the given dimensions, competitive strategy can easily be classified in one of the three following types of competitive strategies (Hill and Jones, 1998): (1) overall cost leadership, (2) differentiation and (3) focusing based on (a) overall cost leadership and (b) differentiation.

Overall cost leadership is a competitive strategy type based on low costs as a source of competitive advantage with a tendency of establishing communication with a higher number of market segments at the aimed market. This competitive strategy leads towards the generation of overall cost leadership through the curve of experience, economy of scale, cost control and similar. Overall cost leadership includes the creation of lower costs in relation to the costs of competitors. In an ideal scenario, overall cost leadership is achieved throughout several cost dimensions. The fundamental mindset behind this competitive strategy is that cost reduction in relation to competitors will lead to the creation of higher value which is recognised as a fundamental guideline for generating long-term above-the-average profitability. Overall cost leadership is achieved by those that manage to develop standardised products which the customers want. It is founded on creating quantitative differences in their own products in relation to its competitors with an aim of creating a lower price. The fundamental idea of this competitive strategy is to become the real market leader of overall costs, rather than just one of several similar ones (Figure 6.9).

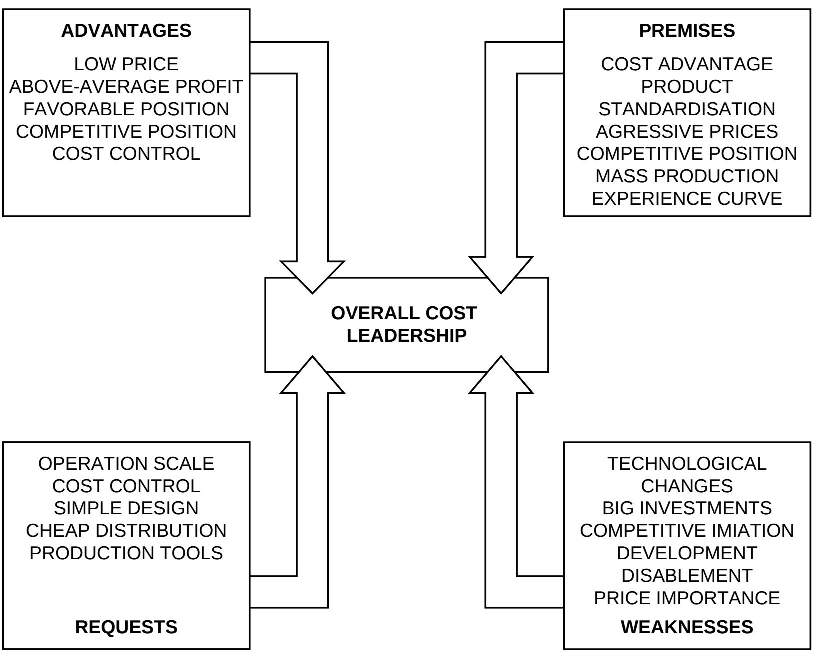

Figure 6.9 Overall cost leadership features.

Source: Adapted from McGee et al., 2005, *210*.

Differentiation is a competitive strategy type based on differentiation as a source of competitive advantage with a tendency of establishing communication with a higher number of market segments. This competitive strategy leads towards the creation of differentiation through brand image, distribution channel, services and similar. Differentiation includes the generation of profitability which is higher than the average profitability of the industry. In an ideal scenario, differentiation is achieved throughout several dimensions of differentiation. The fundamental mindset behind this competitive strategy is that differentiation will lead to a higher product valuation by the customers which is recognised as a fundamental guideline for generating above-the-average profitability. Differentiation is achieved by those who manage to develop non-standardised products which the customers want. It is based on creating qualitative differences in their own products in relation to competitors, with an aim of being different. The fundamental request of this competitive strategy is to be the real market leader in uniqueness, rather than one of several similar ones (Figure 6.10).

Focus is a type of competitive strategy derived from two basic competitive strategies (overall cost leadership and differentiation). The basic feature of focus is to be carried out at the focused market segment. This competitive strategy is used to directly meet the needs of a limited group of customers. i.e.

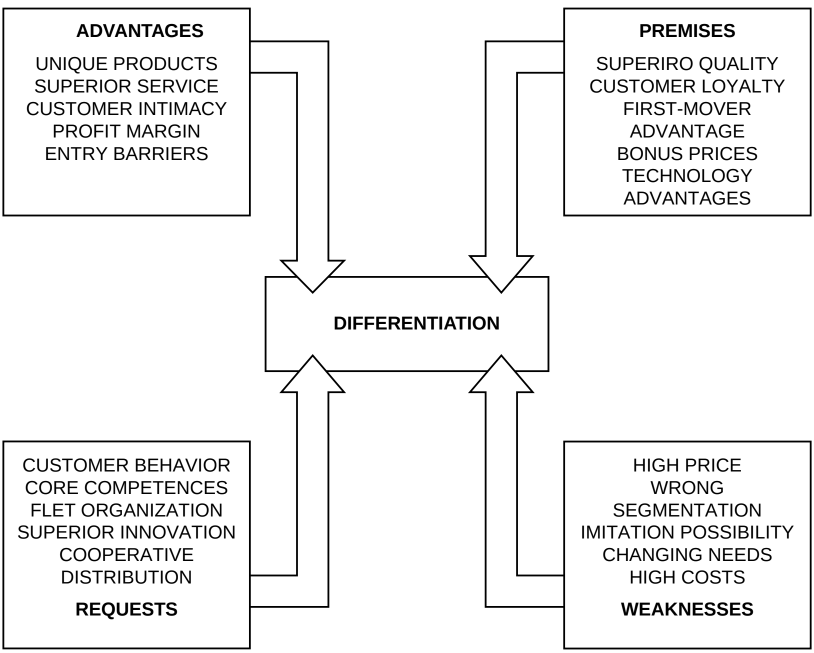

Figure 6.10 Differentiation features.

Source: Adapted to McGee et al., 2005, *210*.