## Porter's generic strategies

Considering the context of three key players, the defined business strategy includes a clear definition of the company towards customers on one side and a definition towards competitors, on the other. Having in mind the previous conclusion, the following must be considered (Thompson and Strickland, 1998):

1 Strategic contemplation in terms of the environment.
2 Strategic contemplation in terms of the company.

The process of defining the condition of the company and the dynamics of the environment requires an assessment and evaluation of the value chain activities (the company) and the identification of the industry structure (the environment) using an analytic procedure based on strategic contemplation in order to identify strategic alternatives. A meticulous diagnosis of the condition of the company and the dynamics of the environment is a necessary prerequisite in the process of long-term decision-making concerning the company course in relation to its environment.

According to Arthur Thompson and John Strickland (1998), a company which does not understand its environment will form its business strategy that does not offer the interaction between the company and the environment and cannot provide the generation of sustainable competitive advantage as such.

A strategy defined in that way features all the relevant aspects of strategic architecture and Michael Porter (1980) labelled it as *generic strategy*. These business strategies are called generic strategic because all companies (value chain) can use them in their environment (industry) whether they work with production or services, or if they are profitable, non-profitable, big or small.

This was Michael Porter's contribution to the contemporary view of business strategy with a highlight on the significance of achieving competitive advantage. The starting point of generic strategies is the curve of experience which is the result of empirical research conducted by the *Boston Consulting Group* – BCG.[1] The concept of the curve of experience was introduced in the late 1960s based on research which relied on hypotheses on the relation of movements of costs and prices in a large number of companies in the USA.

Based on the results of the conducted research, the following theory has been created: *total costs per unit generally have a realistic decrease of 20–30% every time the accumulated experience is doubled*. The theory is presented in Figure 6.2 (Henderson, 1981).

The 80% curve of experience means that every time the experience is doubled, the costs per unit are decreased by 80% of their initial level (costs per unit are decreased by 20%). That is the rate of learning. The curve of experience is the change rate in cost movement in relation to the accumulated