STRAT 6 COMPETITIVE AND GRAND STRATEGIES

Prof. JAA Lazenby
Dept of Business Management

Learning Outcomes

After completing this unit, you should be able to:

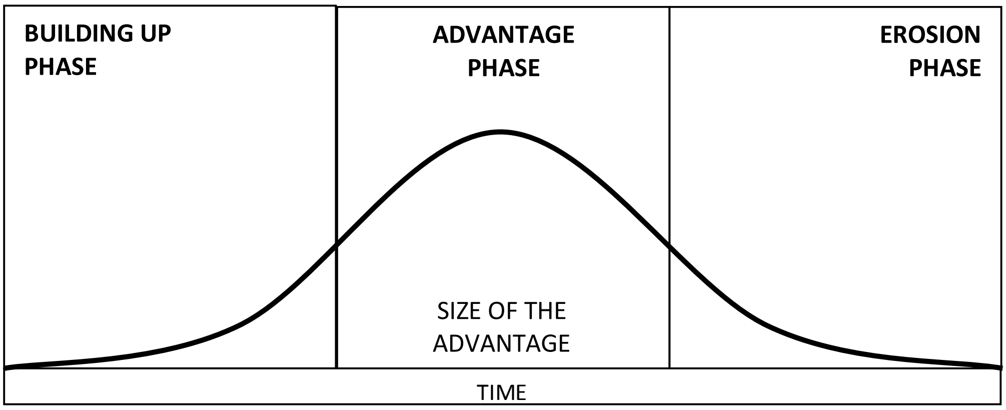
- Have a good understanding of the relationship between strategy and competitive advantage.
- Formulate competitive strategies for your organisation.
- Formulate grand strategies for your organisation.

1. Strategic and competitive advantage

The primary goal of strategic management is to enable organisations to adapt to changes in the environment in such a way that the success and long-term survival of the organisation is ensured. Since 1994 South Africa has gradually entered the global business arena and local companies today have to compete with international companies for the disposable income of consumers, both locally and internationally. In an organisation arena where competition is constantly increasing, success and survival is dependent on the attainment of a competitive advantage. This means that the organisation has to distinguish itself from competitors through distinctive competencies (special capabilities, technologies or resources) that these competitors will not be able to copy readily. Activities like innovative product design, low-cost-manufacturing, superior quality and efficient after-sale service are examples of competitive advantages that are created from distinct competencies like superior technology, committed and qualified human resources (intellectual capital), a visionary leadership style and pro-active management.

Competitive strategies must be based on some source of competitive advantage to be successful. One of the competitive advantages that distinguish Woolworths from its competitors is their ability to ensure the freshness and quality of their products through excellent supply chain management (distinctive competency). It is clear that winning strategies are anchored in a sustainable competitive advantage. The organisation's strategy must attempt to influence the size and length of the organisation's competitive advantage. Figure 6.1 illustrates this relationship.

Figure 6.1: The building up, maintenance and erosion of competitive advantage



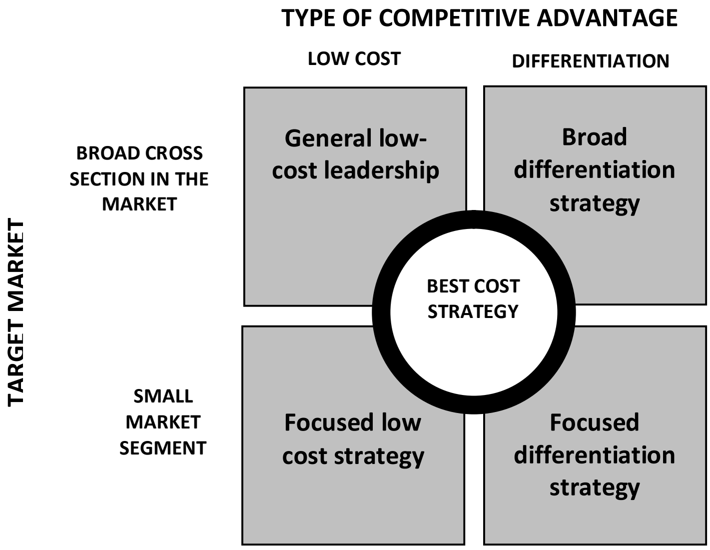
From this figure, it is clear that an organisation's competitive advantage usually consists of three phases. Firstly there is the so-called *building up phase* where strategies are mainly aimed at distinguishing the organisation from other organisations, and in this way bring about a competitive advantage and/or a unique market position. During phase two, the *advantage phase*, strategies are aimed at ensuring the long-term sustainability of the advantage and the extension thereof. Thirdly we find the *erosion phase* where the organisation's competitive advantage is usually gradually eaten away if the organisation was not successful during phase two in ensuring a sustainable competitive advantage.

2. Generic competitive strategies

An organisation's competitive strategy consists of the approaches and initiatives that are used to attract customers, oppose competitive forces and improve the competitive position of the organisation. The purpose of developing competitive strategy is described as follows by Thompson and Strickland (1995: 116): *"The objective, quite simply, is to knock the socks off rival companies ethically and honourably, earn a competitive advantage in the market place and cultivate a clientele of loyal customers."* To accomplish this, the organisation mainly has the following three types of strategies at its disposal:

- **Low-cost leadership.** Here the organisation strives towards being the lowest cost provider of products or services that are aimed at a wide range of clients.
- **Differentiation.** Here the organisation attempts to distinguish itself from other similar organisations in order to demonstrate its uniqueness.
- **Focus.** Here the organisation focuses on a particular market segment, product or technology.

Figure 6.2: Generic competitive strategies
(Adapted from Thompson & Strickland: 2001)



A further variation of these strategies is the so-called *best-cost* strategy. Here the organisation attempts to influence the price/quality perception of the client by emphasising that its product/service is the best *value for money*. The best-cost strategy is actually a combination of the low-cost and the differentiation strategy. This means that the organisation's prices are not necessarily the lowest in the industry, but if they are linked to quality, it is the best buy.

The generic competitive strategy of an organisation often consists of a combination of the above-mentioned strategies rather than of a single strategy. In this way it often happens that focus is combined with low cost, or a combination of focus with differentiation. The latter strategy is usually formed to serve *"niche"* markets and can be powerful competitive weapons. Each generic strategy can now be viewed from up close.

2.1 Low-cost leadership strategy

A low-cost leader's basis for competitive advantage is overall lower costs than those of competitors. It means that organisations that follow this strategy are well aware of factors that drive costs in their industry and the ability to manage these costs from their organisation. This strategy is usually especially successful in markets consisting of large numbers of price-sensitive buyers. These are therefore markets with high volumes and low margins. It is important to pay attention to the fact that this does not concern absolute lower costs, but much rather just *lower costs relative to competitors*. The organisation must thus still be able to function profitably and the emphasis is on relatively lower costs. Successful low-cost leaders also have the ability to make cost saving decisions constantly in their value chain. These organisations thus place great emphasis on the value chain and often have a good knowledge of the value chain of their major competitors.

Organisations pursue cost leadership for one of the following two reasons:

- To provide the lowest prices to consumers in order to gain market share in a particular industry. This strategy is particularly successful in industries where the market is price sensitive. In South Africa, a market that is very price-sensitive is the disposable diaper market. These products are used by the parents of infants on a constant basis over a period of at least two years and the money spent on diapers on a monthly basis contribute significantly to the household budget.
- To provide the organisation with a bigger profit margin. Organisations that pursue this strategy do not pursue price leadership, but focus on maximising their profits. Vast capital resources are an extremely valuable competitive advantage as this provides organisations with a variety of strategic alternatives when it comes to defending or expanding the market share of the organisation. Should their competitors for instance decide to embark on a price war, these organisations will be able to lower their prices substantially (even below cost price) for a prolonged period in order to defend their market share position. This could even lead to higher sales and therefore bigger profits.

A low-cost leadership strategy operates **best** in the following circumstances:

- When tough price competition exists.
- The products in the industry are reasonably standardised and buyers cannot really be lured on the basis of product characteristics.
- If there are not many ways on the basis of which product differentiation can be brought about.
- Most buyers apply the product in the same way.
- When the changeover costs are very low for buyers.
- When there are big buyers that dominate the market and have a substantial influence on prices.

A low-cost leadership strategy is **risky** when:

- Technological breakthroughs occur often in the industry.
- Cost advantages can easily be imitated by competitors.
- The organisation focuses so much on lower costs that other market tendencies and movements pass unnoticed.

2.2 Differentiation strategy

The essence of a differentiation strategy is to be unique in a way that is valuable to the buyer, and is also sustainable. Organisations can distinguish themselves and their products/services in various ways from other organisations. Areas where differentiation can be applied include, among others, the following: Purchases, Research and Development, Production processes, Logistics management, Marketing, Sales, Service, etc. The basis for competitive advantage via differentiation is products/services where the characteristics differ significantly from those of competitors, and where buyers are willing to pay for these differences. This implies that organisations that apply a differentiation strategy are often in a position to demand a price premium for it. This premium must, however, be within limits otherwise the organisation could price itself out of the market.

The most important advantage of differentiation is that it can bring about loyalty in buyers. Other **advantages** of a differentiation strategy are:

- It creates entry barriers in the form of buyers' loyalty.
- It increases the transfer costs for the buyer since competitors' products are now less attractive.
- It provides protection against substitute products.

Differentiation **works best** in markets where:

- Various ways exist to differentiate the product, and buyers attach value to this differentiation.
- The product can be applied for a variety of uses.
- There are few competitors that differentiate on the same basis.

It appears as though a differentiation strategy that is based on one or more of the following **areas** are more successful:

- Technological leadership
- Product quality
- Service quality

The major **risks and impediments** associated with a differentiation strategy are, among others:

- To base the differentiation on something that is not really valuable to the buyer.
- To apply a differentiation that is too expensive. This causes the additional costs, which do not necessarily justify the additional characteristics.
- Differentiation that is marketed badly. This means that the difference that is brought about as a result of the differentiation is not effectively communicated to the buyer.
- Buyers lacking knowledge.

2.3 Focus strategy

A focus strategy entails that the organisation concentrates on a particular element or elements. These elements can be various things, such as a particular market segment, a particular product/service, or a certain technology.

A focus strategy based on differentiation implies that the products and services provided to this niche market come at a high price premium. Because a niche market is relatively small, sales figures are relatively low compared to that of mass producers. Furthermore extensive differentiation is usually accompanied by high costs.

Harley Davidson has pursued this type of strategy very effectively for a very long time. Their market consists of motor cycle enthusiasts, in the high-middle to high income group, usually in their forties and with a relatively high education, who have a passion for the open road and especially for Harley Davidson. They are fiercely loyal to Harley Davidson and a large percentage of them demonstrate this loyalty with the distinctive Harley-Davidson tattoo on their bodies. Harley-Davidson is engraved in their lifestyle (demonstrated through their clothing, helmets and other paraphernalia) and most of them belong to a Harley club that organises regular breakfast runs and other outdoor adventures. This loyalty has helped Harley Davidson to survive against fierce international competition and to maintain strong financial performance over the years.

Kulula.com is an example of an airline in South Africa that focuses on low-budget flyers in the airline industry. Their **focused lowest cost strategy** is based on a no-frills approach, cutting out meals and other cost intensive activities.

A focus strategy is especially **attractive** when:

- The market segment is big enough.
- The segment shows good growth potential.
- The segment is also not critical to competitors.
- The organisation has the competence and resources to serve the chosen segment effectively.
- The organisation can defend itself well in that segment and can create sufficient goodwill.

The **risks** associated with a focus strategy are:

- Competitors finding ways to counter it, and in this way invalidate the focus.
- A segment that becomes so attractive that other organisations soon enter, and the market consequently quickly reaches its saturation point.
- An organisation that goes for a focus strategy also runs the risk of getting very deeply caught up in a particular segment with the result that other segments may remain unnoticed.

3. Grand strategies

Porter's generic strategies identify bases from which organisations can pursue competitive advantage. However, it is not always clear how a particular competitive advantage is achieved practically. Grand strategies, often also referred to as business strategies, are more specific strategies that organisations can pursue in order to achieve cost leadership, differentiation or focus. It enables organisations to coordinate their efforts towards the attainment of their long-term goals. Differentiation, one of Porter's generic strategies, can be achieved in various ways. An organisation can differentiate itself by having the most innovative and technological advanced products, by providing the lowest priced products or by the quality of their service. Each of these differentiation goals can be achieved by a different grand strategy or even by a combination of two or three grand strategies. In this section we will discuss the grand strategies that are pursued by organisations to achieve their goals and to ensure that their competitive advantage is maintained or improved.

There are a variety of grand strategies that organisations can utilise to achieve their long-term goals. These grand strategies can be grouped into three types of grand strategies, namely growth strategies, decline strategies and corporate combination strategies. In the growth strategy section, there is an internal and external growth strategy. The internal growth strategy focuses on the internal environment of the organisation while the external growth strategies are more focused on the market and task environment.

3.1 Internal growth strategies

3.1.1 Concentrated growth

Concentrated growth, also referred to as market penetration, is a strategy that seeks to increase the market share of an organisation through concentrated marketing efforts. The organisation stays focussed on its present market as well as present products and services. The challenge they pursue is to grow their share of the particular market through the customisation of their product features, prices, distribution channels and promotional strategies in order to meet the needs and expectations of consumers in that particular market better than any of their competitors. Through this customised approach they endeavour to increase the usage rate of their present customers, attract non-users to buy their product, and/or attract their competitor's customers and convince them to switch brands.

A concentrated growth strategy can be effective

- if the market for a specific product or service is not saturated,
- when there is room to increase the usage rate of present customers, and especially
- when the market shares of their major competitors have been declining while total sales in the particular industry have been increasing
- where scale economies can provide cost benefits to organisations and
- where there is not much fluctuation in the availability, price and quality of raw materials and other resources required to provide the specific product or service that consumers require.

3.1.2 Market development

A market development strategy involves expanding the portfolio of markets that the organisation serves. Present products or services are therefore introduced into new geographic areas including other countries. Pick 'n Pay followed a market development approach when they decided to enter the Australian market.

A market development strategy is especially effective when

- an organisation has access to reliable and affordable distribution channels in the area that they which to enter.
- They can form strategic partnerships with organisations in the foreign country that they wish to enter.

Cultural barriers and a lack of insight, with regard to the buying behaviour of consumers in the foreign country, present challenges to organisations that consider entering international markets. To overcome these barriers, some organisations decide to When Pick and Pay entered the Australian market they acknowledged their own weaknesses in that particular market and established a strategic partnership with an Australian distribution company, Metcash Trading, ensuring a supply chain at least as good as any of their competitors in the Australian market.

3.1.3 Product development

Improving and modifying the products and services of the organisation in order to increase sales is called product development. Product development is particularly successful when an organisation has successful products that are reaching the maturity stage of their product life cycle. The new Corolla that Toyota was not only a technological improvement on the previous model, but it also boasted a new sporty look that appealed to a wider audience. With this strategy Toyota did not only increase sales, but also expanded their market to include the younger generation.

Product development is essential for organisations that compete in industries that are characterised by rapid technological developments, especially when their major competitors offer better quality products at comparable prices. However, this strategy demands huge capital investment with regard to research and development, as technology and the attainment of appropriate human resources.

3.1.4 Innovation

Organisations that have distinct technological competencies and capital reserves to invest in research and development find it profitable to make innovation their grand strategy. Instead of concentrating on extending the life cycle of their products or services through differentiation and product development, these organisations create new product life cycles that will make similar existing products or services obsolete. While most growth-oriented organisations innovate from time to time, organisations that make innovation their grand strategy use innovation as the fundamental way of relating to their markets.

3.2 External growth strategies

3.2.1 Diversification

This entails the organisation acquiring other organisations to, in this way, spread its risk. In other words, an organisation that applies diversification argues that it is not a good thing "to have all your eggs in one basket", and therefore other organisations are acquired so that the organisation can fall back on them if the existing organisation does not perform well in certain areas. Here we also find two basic forms that the strategy can assume:

Related or concentric diversification entails that the corporation takes up organisations in its portfolio that are in the same industry as it is. Related diversification strategies have potential in industries that experience slow growth or no growth. The goal is to increase sales in this particular market by increasing the number of products consumed by each individual consumer. Needless to say, the organisation should be able to offer the additional products at highly competitive prices and should ensure that brand loyalty is obtained before the additional products are introduced to the market. Concentric diversification is also an attractive strategy for organisations whose current products or services are in the decline stage of the product life cycle.

Unrelated or conglomerate diversification entails that the corporation acquires organisations that are not necessarily in the same industry. The overarching goal of any diversification strategy is to add value for shareholders and bring about a synergistic effect (2 + 2 = 5). This is an attractive strategy when the basic industry of the organisation is experiencing declining sales and profits, when existing markets for the products and services of the organisation is saturated and when the organisation has the capital and managerial talent needed to compete successfully in a new industry.

The diversification decision can be evaluated according to three tests:

- **The attractiveness test.** This means that the organisation that is acquired must be attractive in terms of profitability and its return on investment.

- **The cost-of-entry test.** Here the cost of diversification is looked at in order to determine whether it is viable.
- **The better-off test.** Here it is about the total portfolio of the corporation. This means that the diversification must strengthen the corporation's total portfolio and bring about synergy. There must also be a particular fit between the corporation and the organisations that are taken up in its portfolio. The most important areas where these fits must occur are: the market, operational, management, strategic advantages and the cultural fit.

Some of the **methods** through which an organisation can pursue unrelated diversification include:

- Buying a high-performing organisation in an attractive industry;
- Buying a cash-strapped organisation that can be turned around quickly through additional capital investment;
- Buying an organisation whose seasonal and cyclical sales patterns would provide stability to the cash flow and profitability of the organisation;
- Buying a largely debt-free organisation to improve the borrowing power of the acquiring organisation.

In conclusion, diversification is directly concerned with extending the organisation beyond its original boundaries (industry and market). The **major benefits** that diversification can provide to an organisation include:

- more attractive scope that can provide opportunities for faster growth, higher profitability and greater stability
- access to key resources like capital, technology and expertise
- sharing of value chain activities to provide greater economies of scale and thus lower total cost.

The **risks** associated with diversification include the following:

- Ignorance about newly entered markets could result in inefficiency as a result of inadequate knowledge about customer needs, technological developments and environmental shifts.
- Organisations that pursue unrelated diversification run the risk of reducing their management effectiveness. Unrelated diversification places significant demands on senior executives due to increased complexity and technological differences across industries. It might be very difficult for managers to understand each of the core technologies and appreciate the special requirements of each of the individual business units in an unrelated diversified organisation.
- Sharing value chain activities with another organisation often entail substantial costs with regards to communication, compromise and accountability.

3.2.2 Integration

Integration strategies involve gaining control over suppliers, distributors or competitors in a particular industry to enhance the effectiveness and efficiency of the organisation. **Integration** strategies extend the scope and operations of an organisation to other activities within the same industry. This strategy is characterised by the expansion of the organisation into other parts of the industry value chain directly related to the design, production, distribution or marketing of its existing products and services. Integration strategies can be divided into **vertical and horizontal** integration strategies. The primary objective of vertical integration is to strengthen the hold of the organisation on resources they deem critical to their competitive advantage. The purpose of **vertical integration** is usually to gain better control over the distribution channel, provided that it strengthens the competitive position of the organisation. The most important disadvantage of vertical integration is that it traps the organisation further in a certain industry, and in this way it can limit the mobility of the organisation. Vertical integration can be achieved in two directions, namely forward and backward.

Backward vertical integration means that organisations are taken over in the direction of the suppliers (upstream). This type of strategy is particularly common in industries where low cost and certainty of supply are vital to maintaining the competitive advantage of the organisation in its market. Toyota South Africa pursued this strategy when they gained ownership of Raylite batteries and of Armstrong, manufacturers of shock absorbers. Backward vertical integration is appropriate when the current suppliers of an organisation are unreliable, too costly, or incapable of meeting the needs of the organisation with regards to parts, components or materials. Needless to say, adequate capital and human resources are prerequisites for pursuing this strategy.

Forward vertical integration means that organisations are taken over in the direction of clients (downstream) - gaining ownership over distributors or retailers. Establishing web sites to sell products directly to consumers is also a form of forward integration as the organisation cuts out retailers and distributes its products directly to consumers. Forward integration is attractive when existing distributors/retailers are unreliable, have high profit margins (which inflates the price that the consumer has to pay for the product) or are incapable of servicing the consumers of the organisation' products effectively.

There are **benefits** and **risks** associated with vertical integration. The cumulative potential benefit of vertical integration strategies is that they tend to reduce the economic uncertainties and transactions costs facing an organisation in a particular industry. However, vertical integration can sometimes lead an organisation to over commit scarce resources to a given technology, production process or other activity that could become obsolete in a certain industry. This strategy is also capital intensive, resulting in high fixed costs that may leave the organisation vulnerable in an industry downturn. Lastly, vertical integration can pose problems with regard to integrating different sets of capabilities, skills, management styles and values.

Horizontal integration takes place when an organisation seeks ownership or increased control over certain value chain activities of its competitors. This takes place through mergers, acquisitions and take-overs. This type of strategy is attractive when an organisation competes in a growing industry, where the achievement of economies of scale could provide cost benefits or other forms of competitive advantage and where an organisation has both the capital and human talent needed to successfully manage an expanded organisation. The merger between Volkskas, United, Trust Bank and Allied that resulted in ABSA Bank is a good example of horizontal integration. Horizontal integration can pose problems with regard to integrating the differences in organisational culture, capabilities, skills, management styles and values of the organisations involved in the merger or acquisition.

3.3 Decline strategies

Decline strategies are also often referred to as defensive strategies. These strategies are pursued when an organisation finds itself in a vulnerable position as a result of poor management, inefficiency and ineffectiveness. There are three types of defensive strategies, namely:

3.3.1 Retrenchment or turnaround

Some organisations find themselves in a situation where their profits are declining. Declining profits can result from a variety of reasons, including a decline in sales, adverse economic conditions, increased competition, products becoming outdated or obsolete (competitors launch innovative products), ineffective production and distribution processes and poor management.

A turnaround strategy focuses on strengthening the distinctive competencies of the organisation in order to break the downward spiral with regards to sales and profits. Activities focus on ways to reduce costs and assets in order to stabilise the financial condition of the organisation and to put the organisation on a path of recovery. Emphasis is often on re-engineering of processes and the introduction of Total Quality Management programmes to increase the cost-effectiveness of the organisation. Activities often include the selling of land and buildings, the outsourcing of activities that are not the core competencies of the organisation, reduction of personnel and curtailment of managerial perks. Organisations that pursue turnaround strategies often appoint new managers with new perspectives and specialised skills to facilitate dramatic changes like restructuring and re-engineering.

Turnaround strategies are appropriate for organisations that have distinctive competencies, but have been managed poorly or have grown too quickly and therefore need major reorganisation in order to survive. These organisations are usually plagued by inefficiency, low productivity, poor profitability, low employee morale and pressure from their shareholders to increase performance.

3.3.2 Divestiture

Divestiture involves selling a division or part of the organisation to raise capital for further acquisitions or investments. It can also be part of an overall retrenchment strategy to get rid of divisions that are unprofitable or do no longer fit in with the strategic direction that the organisation is embarking on. In diversified organisations divestiture will entail selling one or two organisations that have become liabilities in the portfolio of the organisation due to poor profitability, which often results from a lack of expertise, or increased competition in a particular industry.

3.3.3 Liquidation

This strategy entails selling all the assets of an organisation in an attempt to avoid bankruptcy. Liquidation is usually pursued when efforts to turn an organisation around through retrenchment and divestiture have been unsuccessful and ceasing operations are the only alternative to bankruptcy. Liquidation is therefore a planned and orderly way of converting the assets of the organisation into cash in an attempt to minimise losses for the shareholders of the organisation.

The decision to embark on liquidation is usually a very emotional one, because it basically means admitting defeat and embarking on activities that result in hardship for the employees and other stakeholders of the organisation. However, pursuing liquidation is a better option than bankruptcy as management has the opportunity to plan the activities in such a way that the loss to all the stakeholders of the organisation is minimised.

4. Situation specific strategies

Apart from the abovementioned strategies, the organisation must also constantly ensure that its strategy adapts to the specific situation. Consequently we thus look briefly at strategies for specific situations. It is, however, of cardinal importance that these strategies are not handled as recipes, but rather as suggestions that can possibly be considered.

4.1 Strategies for competing in turbulent, high-velocity markets

Here organisations find themselves in industry situations that are characterised by rapid technological change and short product life cycles because of the pace at which next-generation products are being introduced and the entry of new rivals into the market. The industry is established, with rapid change being the prevailing condition. Personal computer hardware and software, video games, wireless telecommunications, prescription drugs and the whole arena of cyberspace is typical examples of this industry situation.

Change is a fundamental characteristic of this type of market environment and thus poses a challenge for strategy making. An organisation in this industry has three strategic options for dealing with the change:

- **It will react to change.** To react to change means that the organisation defends itself. The organisation can, for example, respond to a competitor's new product with a better one. This is a defensive strategy and unlikely to create a fresh opportunity.
- **It will anticipate change.** Anticipating change is still fundamentally a defensive strategy because forces outside the organisation are controlling what is going to happen in it. Anticipation means that the organisation is looking ahead to analyse what is going to happen and then prepare and position itself for that future.
- **It will lead change.** To lead change is inherently an offensive strategy because it means being first in the market with a new product or service. Organisations in this situation are industry leaders.

What will determine competitive success in these fast-changing markets? The organisation's abilities to improvise, experiment, adapt, reinvent and regenerate as market and competitive conditions shift rapidly and sometimes unpredictably are key factors for success.

The following strategic moves may help the organisation to gain a competitive advantage:

- In order to stay at the leading edge of technological know-how, it is important for organisations to invest aggressively in R&D.
- Specific organisational capabilities are required for an organisation to respond quickly to the moves of competitors and surprising new developments.
- Organisations do not always have all the resources and competencies to pursue so many new technological paths and product categories. That is why it is important to rely on strategic partnerships with outside suppliers and with companies making tie-in products.

- It is important to keep the company's products and services sufficiently fresh and exciting to stand out in the midst of all the change that is taking place.

4.2 Strategies for mature industries

In these industries we see that competition is very tough, the demand for products stabilises, buyers are more sophisticated, costs and service are very important, product innovations are scarce, international competition increases, profitability stabilises and may even decrease, take-overs and mergers occur. Strategic options in industries such as these can be the following:

- Cut product lines – concentrate on your core business.
- Place more emphasis on process innovation. Redesign processes that hold long-term cost advantages and other advantages for clients.
- Place more emphasis on lowering costs.
- Increase sales to existing clients, and try to make client retention the core of the marketing strategy.
- Take over competitors, provided that this can be done at a bargain. As a result of the tough competition and pressure on margins, it can happen that bargains such as these begin to emerge.
- Consider international expansion.

4.3 Strategies for declining industries

The most important characteristic of these industries is that the demand for the product stagnates and starts to decline. Organisations in industries such as these must seriously reflect on their future, and leave the industry too early rather than too late. Strategic options here can be:

- Focus on those segments that do still show a little bit of growth.
- Differentiate on the basis of quality.
- Do everything to limit costs.

5. General guidelines for strategy formulation

The general goal with designing strategies is to, in a creative manner:

- Improve the competitive position of the organisation.
- Remember that a clear and well-formulated strategy alone cannot improve the organisation's position, but also helps to build the organisation's reputation.
- Ensure that the chosen strategy has enough flexibility to absorb changes in the market and in the broad external environment by affixing the necessary adjustments.
- Invest in the creation of a sustainable competitive advantage.
- Be aggressive in building competitive advantage and also defend it aggressively.
- Guard against merely going for strategies that can only succeed in the best scenario.
- Do not underestimate competitors.
- Be careful to attack strong competitors before a distinctive competitive advantage is built up.
- To attack competitors' weaknesses is often cheaper than to attack their strengths.
- Beware of a low-cost strategy without it having real cost advantages.

Strategy formulation is indeed an art. Do not expect to get it right the first time. It is much rather a process of repetitive attempts that in the end leads to the best strategy. Because it is a process it never stops, it is a cycle that occurs repetitively and the goal is to make the necessary incremental improvements with each recapitulation. Furthermore, it may be that the organisation reaches a certain point where this cycle must be changed completely – miss this moment and you miss the future!

Discussion questions

- Discuss the circumstances where low costs and differentiation strategies will work best.
- Develop a competitive strategy for your organisation.

Sources

EHLERS & LAZENBY. 2004. *Strategic Management.*

THOMPSON & STRICKLAND. 1995. *Crafting and implementing strategy.*

HAMEL & PRAHALAND. 1996. *Competing for the future.*

