

STRATEGIC MANAGEMENT

AN INTEGRATED APPROACH

THEORY & CASES



HILL | SCHILLING | JONES

CHAPTER 5 BUSINESS-LEVEL STRATEGY

LEARNING OBJECTIVES

- Explain the difference between low-cost and differentiation strategies
- Articulate how the attainment of a differentiated or low-cost position can give a company a competitive advantage
- Explain how a company executes its business-level strategy through function-level strategies and organizational arrangements
- Describe what is meant by the term value innovation
- Discuss the concept of blue ocean strategy, and explain how innovation in business-level strategy can change the competitive game in an industry, giving the innovator a sustained competitive advantage

BUSINESS-LEVEL STRATEGY

- Business-level strategy refers to the overarching competitive theme of a company in a given market. At its most basic, business-level strategy is about *whom* a company decides to serve (which customer segments), what customer *needs* and *desires* the company is trying to satisfy, and *how* the company decides to satisfy those needs and desires.
- Way a company positions itself in the marketplace to gain a competitive advantage
- Different positioning strategies that can be used in different industry settings

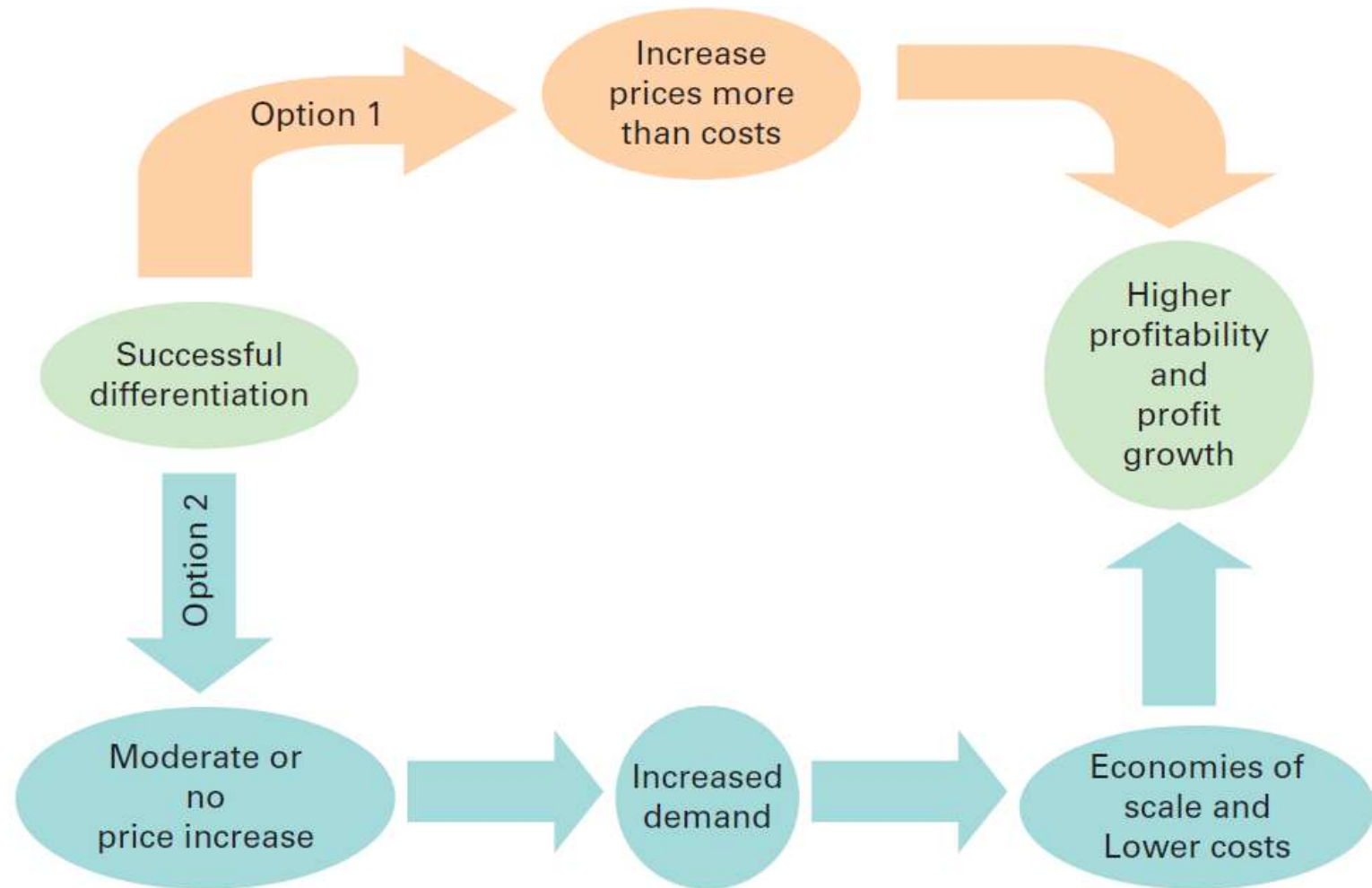
LOWERING COSTS AND DIFFERENTIATION

- Strategy is about the search for competitive advantage. As we saw in Chapter 3, at the most fundamental level, a company has a competitive advantage if it can lower costs relative to rivals and/or if it can differentiate its product offering from those of rivals, thereby creating more value.

LOWERING COSTS AND DIFFERENTIATION

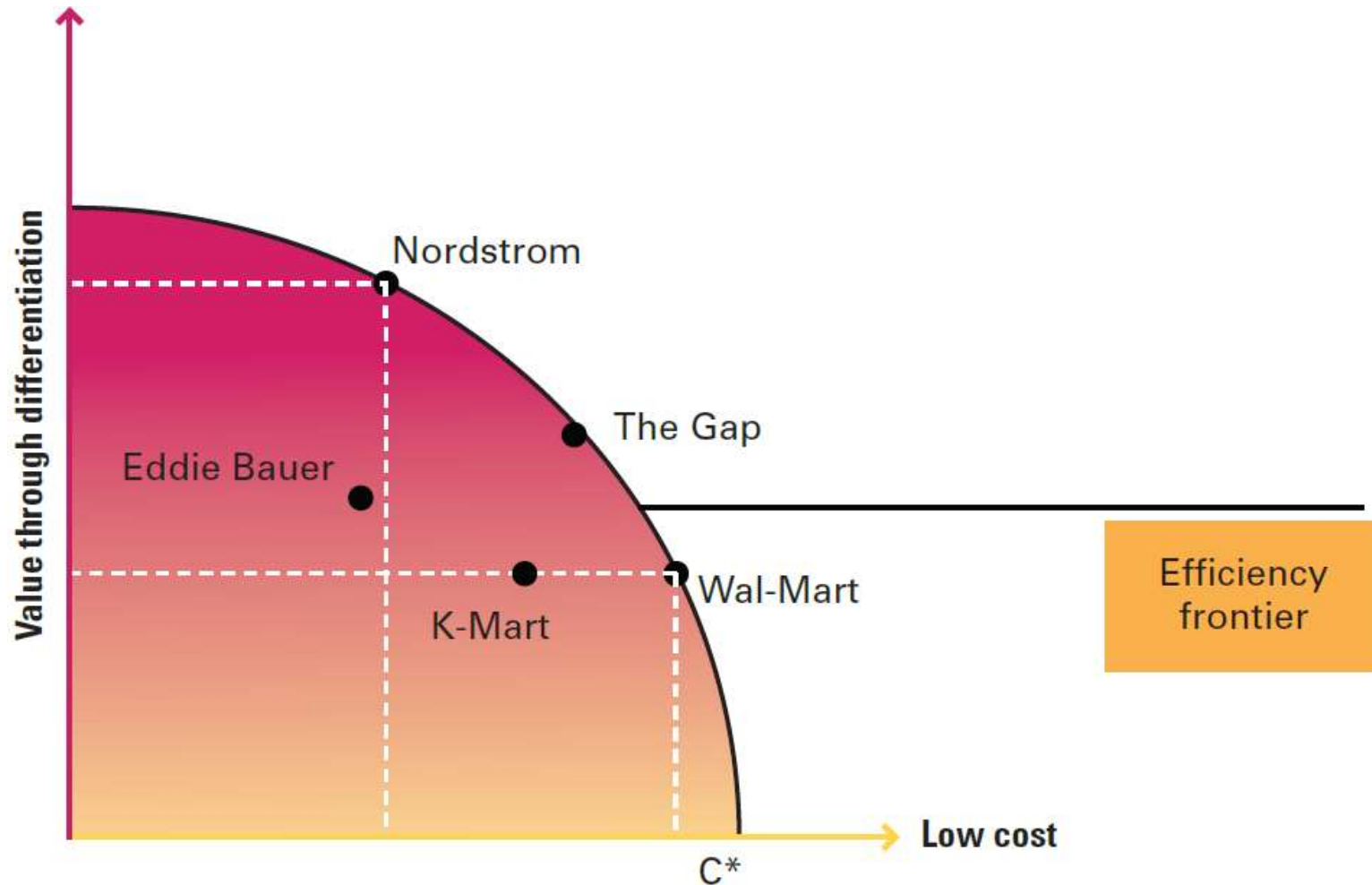
- Lowering costs enable a company to:
 - Gain a competitive advantage in commodity markets and maintain or increase profitability
 - Undercut rivals on price and gain market share
- Differentiation - Distinguishing oneself from rivals by offering something that is unmatched
 - Allows a company to charge a premium price
 - Helps a company to grow overall demand and capture market share from its rivals

FIGURE 5.1 - OPTIONS FOR EXPLOITING DIFFERENTIATION



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FIGURE 5.2 - THE DIFFERENTIATION-LOW COST TRADEOFF



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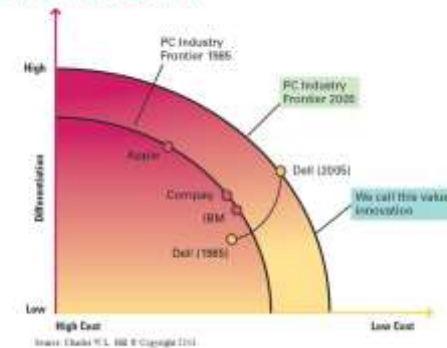
THE DIFFERENTIATION-LOW COST TRADEOFF

- Efficiency frontier - Shows all the positions a company can adopt with regard to differentiation and low cost
- Multiple positions on the differentiation-low cost continuum are viable
- To get to the efficiency frontier, a company must:
 - Pursue the right functional-level strategies and be organized
 - Ensure all the approaches to strategy align with each other

VALUE INNOVATION

- Occurs when innovations push out the efficiency frontier in an industry, enabling greater value to be offered through superior differentiation
- At a lower cost than was thought possible
- Enable a company to outperform its rivals for a long period of time

FIGURE 5.3 - VALUE INNOVATION IN THE PC INDUSTRY



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https://www.youtube.com/watch?v=1jn2_nZrivQ

MARKET SEGMENTATION

Standardization strategy

- Producing a standardized product for the average customer, ignoring different segments

Segmentation strategy

- Producing different offerings for different segments, serving many segments or the entire market

Focus strategy

- Serving a limited number of segments or just one segment

BUSINESS-LEVEL STRATEGIES

**Focus
differentiation
strategy**

**Broad low-cost
strategy**

**Broad
differentiation
strategy**

**Focus low-cost
strategy**

BUSINESS-LEVEL STRATEGY, INDUSTRY, AND COMPETITIVE ADVANTAGE

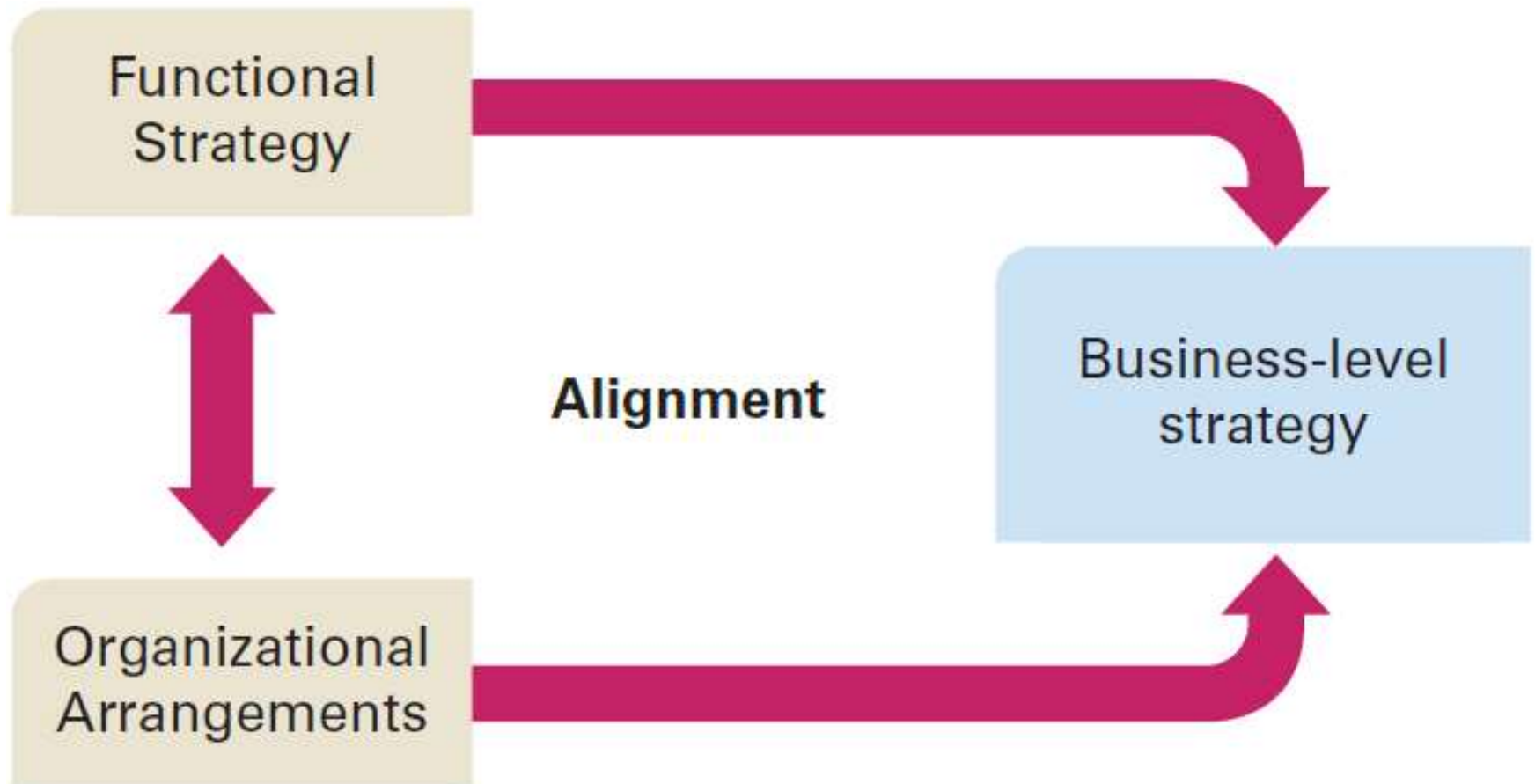
Low-cost companies

- Charge low prices and still make profits
- Absorb cost increases from suppliers
- Offer deep discount prices for buyers

Differentiated companies

- Withstand pricing pressure from powerful buyers and increase prices without buyer resistance
- Absorb price increases from suppliers and pass them to customers without losing market share
- Withstand substitute goods, as a result of brand loyalty

FIGURE 5.5 - STRATEGY IS IMPLEMENTED THROUGH FUNCTION AND ORGANIZATION



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LOWERING COSTS THROUGH FUNCTIONAL STRATEGY AND ORGANIZATION

- Achieve economies of scale and learning effects
- Adopt lean production and flexible manufacturing technologies
- Implement quality improvement methodologies to produce reliable goods
- Streamline processes
- Use information systems to automate business process

LOWERING COSTS THROUGH FUNCTIONAL STRATEGY AND ORGANIZATION

- Implement just-in-time inventory control systems
- Design products with a focus on reducing costs
- Increase customer retention
- Ensure that the organization's structure, systems, and culture reward actions that lead:
 - Higher productivity
 - Greater efficiency

DIFFERENTIATION THROUGH FUNCTIONAL-LEVEL STRATEGY AND ORGANIZATION

- Customize product offering and marketing mix to different market segments
- Design product offerings that have a high perceived quality regarding their:
 - Functions
 - Features
 - Performance
 - Reliability
- Handle and respond to customer queries and problems promptly

DIFFERENTIATION THROUGH FUNCTIONAL-LEVEL STRATEGY AND ORGANIZATION

- Focus marketing efforts on:
 - Brand building
 - Perceived differentiation from rivals
- Ensure employees act in a manner consistent with the company's image
- Create the right organizational structure, controls, incentives, and culture
- Ensure that the control systems, incentive systems, and culture align with the strategic thrust

BLUE OCEAN STRATEGY

- To redefine its market and create a new business-level strategy, a company must:
 - Eliminate factors that rivals take for granted, and reduce costs
 - Reduce certain factors below industry standards, and lower costs
 - Raise certain factors above industry standards, and increase value
 - Create factors that rivals do not offer, and increase value

WHAT IS A BLUE OCEAN?

Red Ocean



- Existing market space
- Industry boundaries are defined and accepted
- Cutthroat competition means the water is bloody red
- Growth and profits are restricted

Blue Ocean



- New market space
- Companies expand or go across industry boundaries
- Competition is irrelevant in the blue uncharted water
- Significant opportunity for profitable growth

Creating Uncontested Market Space and Making the Competition Irrelevant



Cirque du Soleil
Blue Ocean Strategy

THE CASE OF CIRQUE DU SOLEIL



- Cirque du Soleil achieved rapid growth in a declining industry with low profit potential
- Cirque du Soleil created uncontested new market space that made the competition irrelevant
- Instead of simply trying to outpace the competition, Cirque du Soleil offered people both the fun and thrill of the circus and the intellectual sophistication of the theater
- Because of this, Cirque du Soleil appealed to both circus customers and noncustomers

THE CASE OF CIRQUE DU SOLEIL

- Each show, like a theater production, had its own unique theme and storyline
- This allowed customers to return to the show more frequently
- They also did away with the traditional high-priced concessions and vendors thereby cutting costs
- Cirque du Soleil effectively combined the best of both the circus and the theater while eliminating everything else
- This allowed them to achieve both differentiation and low cost

Four Actions to create a Blue Ocean

