**Session 05 BUSA 7800 - Strategic Management Chapter 05**

Learning Outcomes

At the end of this session you should be able to:

1. Describe the focus of a business – level (competitive) strategy.
2. Explain how to build a competitive advantage for both the overall cost leadership strategy and the differentiation strategy.
3. Recognize why some generic competitive strategies work better in certain kinds of industry and competitive conditions than others.
4. Describe the pitfalls of each competitive strategy.
5. Compare the two different types focus strategies.
6. Explain how firms can effectively combine elements of generic strategies.

**Chapter 5 - Business - Level Strategy: Creating and Sustaining Competitive Advantages**

**I. Introduction**

Why is choosing one of the four generic business-level (competitive) strategies is a company's first and foremost choice in crafting an overall strategy?

**II. Business (Competitive) Strategies and Industry Positioning**

What does a company’s business (competitive) strategy focus on?

What decisions must firms make in their competitive strategies?

What are the four generic competitive strategies? (Exhibit 5.1)

1. *Overall Cost Leadership*
2. *Differentiation*
3. *Cost Focus*
4. *Differentiation Focus*

**III. Overall Cost Leadership**

**A. Introduction**

When does a company achieve overall cost leadership?

What are the two options for translating a low-cost advantage over rivals into attractive profit performance?

When it comes to a firm’s product, what is a limitation that managers see with the overall cost leadership strategy?

**B. Overall Cost Leadership and the Value Chain**

What are two ways that firms can use their value chain to achieve a low-cost edge over rivals? (Exhibit 5.2)

1. *Performing essential value chain activities more cost-effectively than rivals.*
2. *Revamping the firm's overall value chain to eliminate or bypass some cost-producing activities.*

What are some examples of cost-efficient management of value chain activities?

What are some examples of how a firm can revamp their value chain?

**C. When a Low-Cost Provider Strategy Works Best**

When does a low-cost provider strategy work best?

1. Price competition among rival sellers is especially vigorous.

Who can survive a price war?

1. The products of rival sellers are essentially identical and are readily available from several sellers.

How do buyers decide if products are pretty much identical?

1. There are few ways to achieve product differentiation that have value to buyers.
2. Buyers incur low costs in switching their purchases from one seller to another.

1. The majority of industry sales are made to a few, large-volume buyers.

1. Industry newcomers use introductory low prices to attract buyers and build a customer base.

**C. The Pitfalls of Overall Cost Leadership Strategies**

* 1. Overly Aggressive Price Cutting

How can a firm get carried away with overly aggressive price cutting and end up with lower, rather than higher, profitability?

* 1. Reliance on easily imitated cost reductions.

What is the major problem with focusing on easily imitated cost reductions?

* 1. Becoming too fixated on cost reductions.

How can becoming too fixated on cost reductions hurt a business?

* 1. Vulnerability to raw material costs

Why is this strategy more venerable to increases in the price of inputs?

**IV. Differentiation**

**A. Differentiation - Key Points**

In general, when are differentiation strategies ideal to use?

What are the benefits of a successful differentiation strategy?

What is the requirement to make differentiation feasible?

What are a few examples of how firms can differentiate?

* + Unique taste:
  + Wide selection and one-stop shopping:
  + Superior service:
  + Engineering design and performance:
  + Luxury and prestige:
  + Technological leadership:

How do firms deliver superior value via a differentiation strategy?

1. Include product attributes and user features that lower the buyer’s costs.

What are some examples of user features that lower the buyer's costs?

1. Incorporate tangible features that improve product performance.

1. Incorporate intangible features that enhance buyer satisfaction in noneconomic ways.
   1. **Managing the Value Chain in Ways that Enhance Differentiation**

What are some examples of activities that enhance differentiation?

(Exhibit 5.4)

* 1. **Perceived Value and the Importance of Signaling Value**

Why must the price premium commanded by differentiation reflect the value perceived by the buyer?

**D. When a Differentiation Strategy Works Best**

Differentiation strategies tend to work best in market circumstance where:

1. Buyer needs and uses of the product are diverse

1. There are many ways to differentiate the product or service and many buyers perceive these differences as having value

1. Few rival firms are following a similar differentiation approach

Why can this be a dangerous strategy in this circumstance?

1. Technological change is fast-paced and competition revolves around rapidly evolving product features

**E.** **Pitfalls to Avoid in Pursuing a Differentiation Strategy**

Differentiation strategies can fail for any of several reasons.

1. The company’s differentiation strategy produces a ho-hum market reception because buyers see little value in the unique attributes of a company’s product.
2. Over differentiating so that the product quality or service level exceeds buyers’ needs
3. Trying to charge too high a price premium
4. Competitors can quickly copy most or all of the appealing product attributes a company comes up with.
5. Overspending on efforts to differentiate the company’s product offering, thus eroding profitability
6. Being timid and not striving to open up meaningful gaps in quality or service or performance features compared to rivals

**I. Focused (or Market Niche) Strategies**

What sets focused strategies apart from low-cost leadership or broad differentiation strategies?

How can a target segment or niche can be defined?

**A. Cost Focus**

How does a focused strategy based on low cost aims at securing a competitive advantage?

What is an example of a firm using a focused low cost strategy?

**B. Differentiation Focus**

How does a focused differentiation strategy gain a competitive advantage?

**C. When a Focused Low-Cost or Focused Differentiation Strategy is Viable**

A focused strategy becomes increasingly attractive as more of the following conditions are met:

* 1. The target niche is big enough to be profitable and offers good growth potential
  2. Industry leaders do not see that having a presence in the niche is crucial to their own success
  3. The industry has many different niches and segments
  4. Few, if any, other rivals are attempting to specialize in the same target segment
  5. The focuser has a reservoir of customer goodwill and loyalty

**D. The Risks of a Focused Low-Cost or Focused Differentiation Strategy**

What are several risks of the focus strategy?

* 1. The chance that competitors will find effective ways to match the focused firm’s capabilities in serving the target niche
  2. The potential for the preferences and needs of niche members to shift over time toward the product attributes desired by the majority of buyers
  3. The segment may become so attractive it is soon inundated with competitors, intensifying rivalry and splintering segment profits

**II. Combination Strategies: Integrating Overall Low Cost and Differentiation**

Why discuss the idea of combination strategies?

How can the benefits of combining advantages be additive instead of involving a trade off?

What is the aim of combination strategies?

What is the competitive advantage of a firm using a combination strategy?

**A. When Combination Strategies Works Best**

Under what situations does a best cost provider work well?

* 1. Product differentiation is the norm.
  2. The market is comprised of large numbers of value-conscious buyers attracted to economically priced midrange products and services, especially during recessionary times.
  3. A provider can offer either a medium-quality product at a below-average price or a high-quality product at an average or slightly higher-than-average price.

**B. The Danger of an Unsound Combination Strategy**

What is the main danger of a company using the combination strategy?

A combination strategy not done well can result in what Michael Porter described as "Stuck in the Middle". What did Michael Porter mean by being "Stuck in the Middle"?

**Next Session:**

Chapter 6 – Corporate-Level Strategy