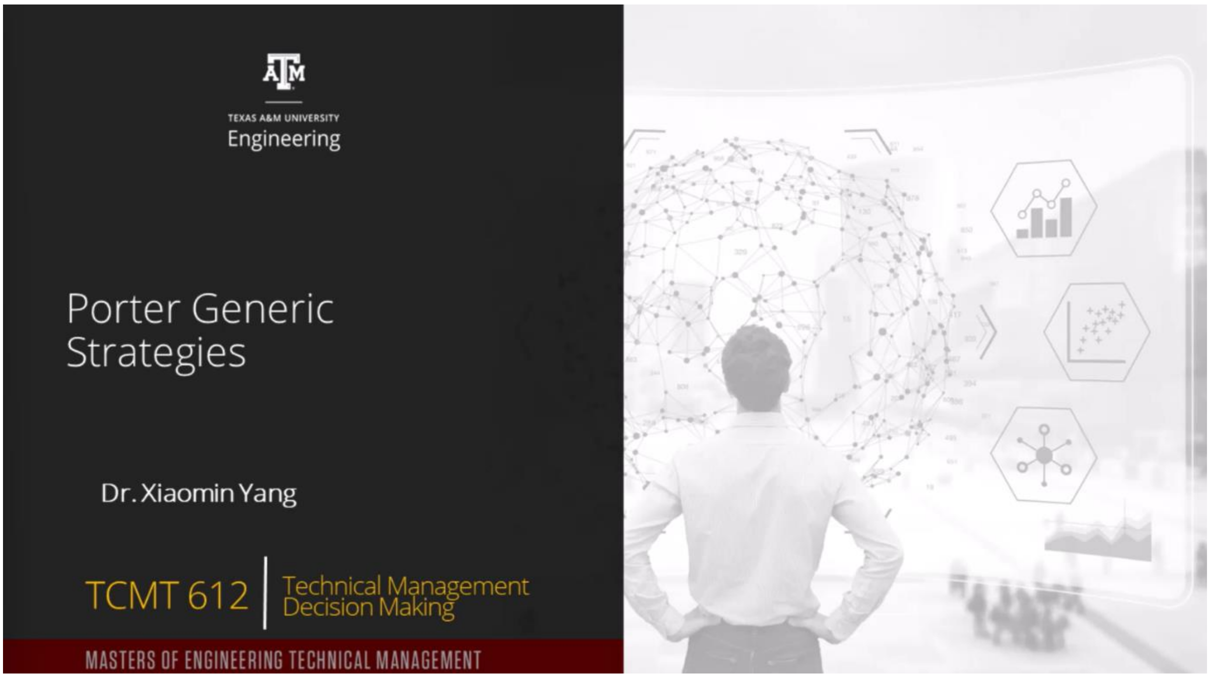
M5L8. Porter Generic Strategies

Slide #1



In this topic, the professor introduces Michael Porter's generic business strategies.

Slide #2

Porter's genetic strategies describe how a company create value and pursue competitive advantage over competing companies in its chosen market.

First strategy is about how a company position itself within its industry, which means that firms within the same industry can position themselves in different ways.

Also, not all positions will be equally profitable or lead to the same odds of survival.

Slide #3

There are three types of generic strategy.

Low cost, differentiation, and focus.

A company can choose to lower the cost of its operation than its competition or differentiate itself to command higher price.

Slide #4

A company can also choose to focus its business on specific segments of the market.

The focus strategy limits the size of a company if it's focused on a narrow set of segments.

Some examples of the companies that follow the focused scope strategy are those offering ultra luxury products. such as Bentley or Rolls Royce vehicles.

Slide #5

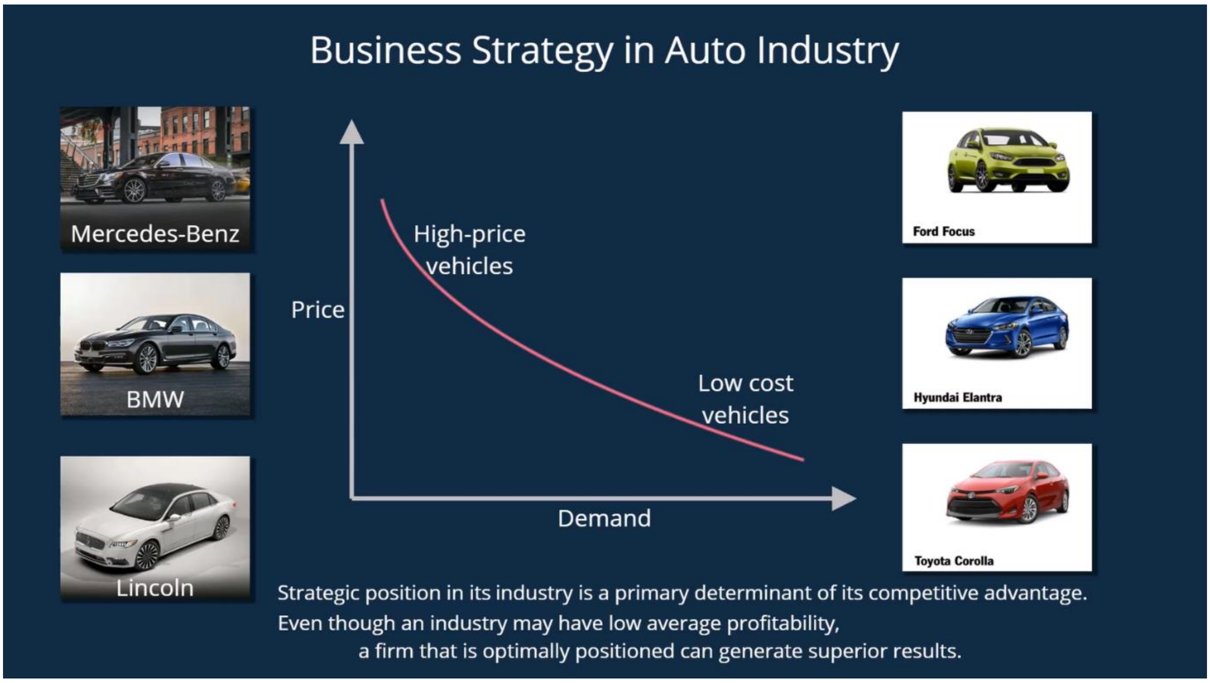
In this lecture, our discussion will focus on the first two types of strategies, cost leadership and differentiation.

If a firm is targeting customers based on offering the lowest price, it is following a cost leadership strategy.

On the other hand, if a firm targets their customers based on attributes of their products, other than price so that the firm can command a higher price, it is pursuing a differentiation strategy.

It's worthwhile to point out, even though a firm differentiate itself, it may still seek to minimize cost in areas that do not differentiate the company to remain cost competitive.

Slide #6



Automakers in the industry position themselves in different ways to meet market demand and customer's needs.

The relationship between market demand and price of vehicles is shown in the demand price curve.

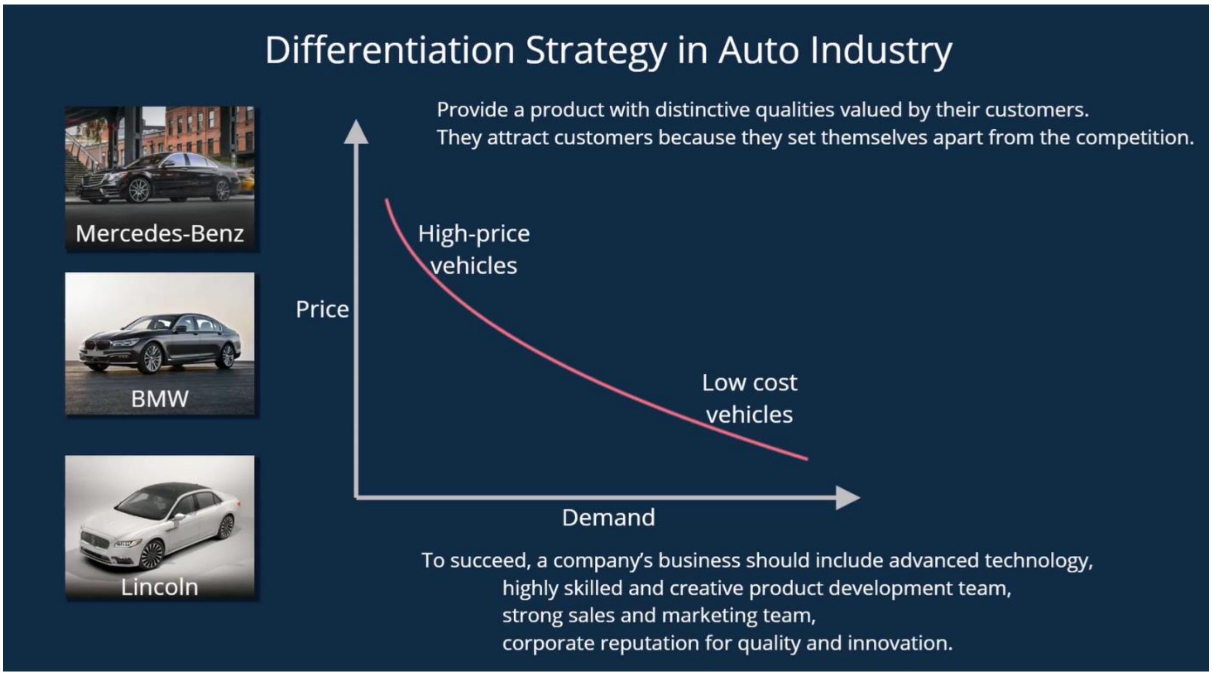
The demand of high-priced luxury vehicles is lower than that of low-priced small vehicles.

A company could maximize its revenue by choosing specific segments, either high margin luxury vehicles of low margin, high volume cars.

Auto companies strategic position in its industry is primarily determined of its competitive advantage.

Even though an industry may have low average profitability, a firm that is optimally positioned can generate superior results.

Slide #7



The companies at the left side follow differentiation strategy.

They are mainly the luxury auto brands.

Differentiation strategy calls for a company to provide a product It's distinctive qualities valued by their customers.

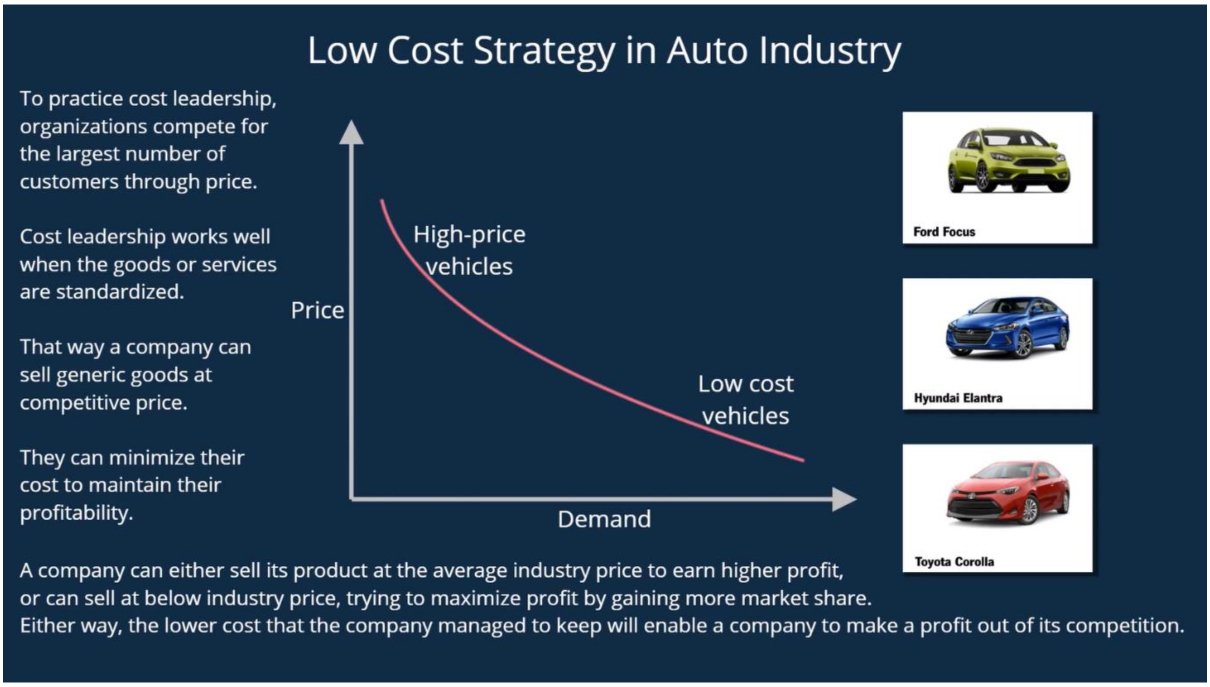
They attract customers because they set themselves apart from the competition.

To succeed at this strategy, a company's business should include advanced technology, a highly skilled and creative product development team.

A strong sales and marketing team and a corporate reputation for quality and innovation.

Lincoln, Mercedes Benz and BMW, for example, use differentiation strategy.

Slide #8



The three firms at the right side, Toyota, Ford Focus, and Hyundai, follow the low cost leadership strategy.

To practice cost leadership, organizations compete for the largest number of customers through price.

Cost leadership works well when the goods or service are standardized.

That way, a company can sell generic goods at a competitive price.

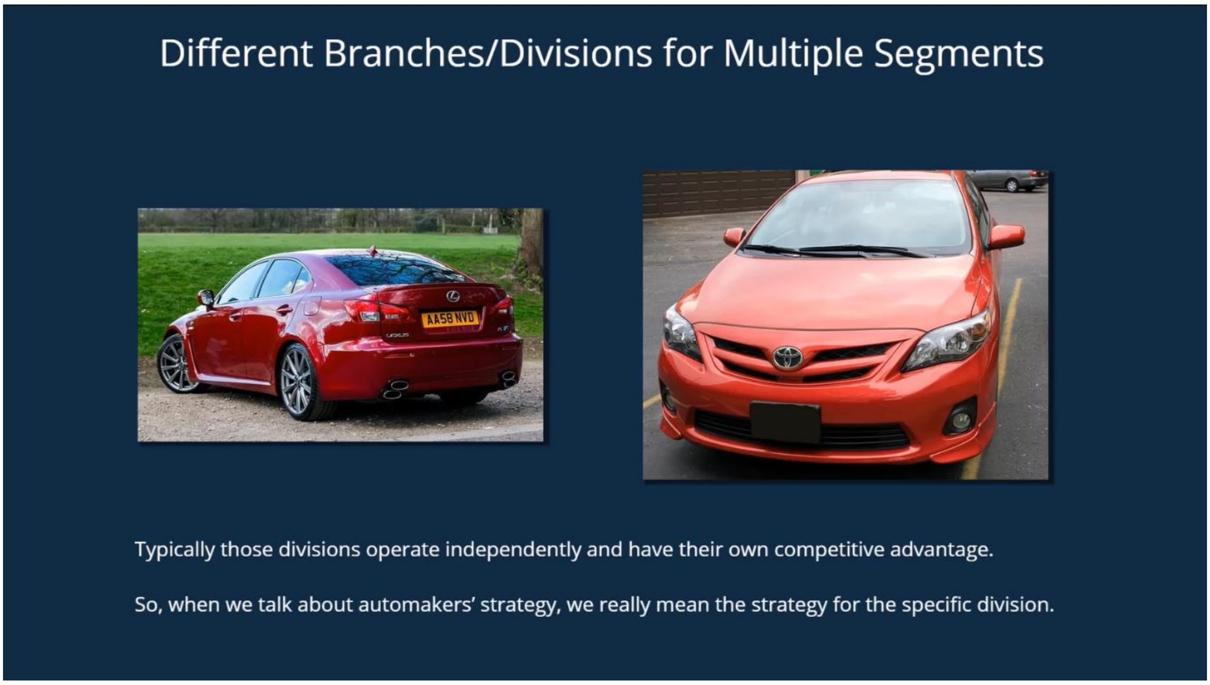
They can minimize their cost to maintain their profitability.

A company can either sell its products at the average industry price to earn higher profit, or can sell at below industry price, trying to maximize profit by gaining more market share.

Either way, the lower cost that the company managed to keep will enable the company to make a profit out of its competition.

Toyota, Ford, and Hyundai are examples of a company with cost leadership strategy.

Slide #9



We need to point out that most of the major automakers include different brands or divisions for multiple segments.

They have their luxury car divisions and they have their high volume cars divisions.

Typically, those divisions operate independently and have their own competitive advantage.

So when we talk about automakers strategy, we really mean the strategy for that specific division.