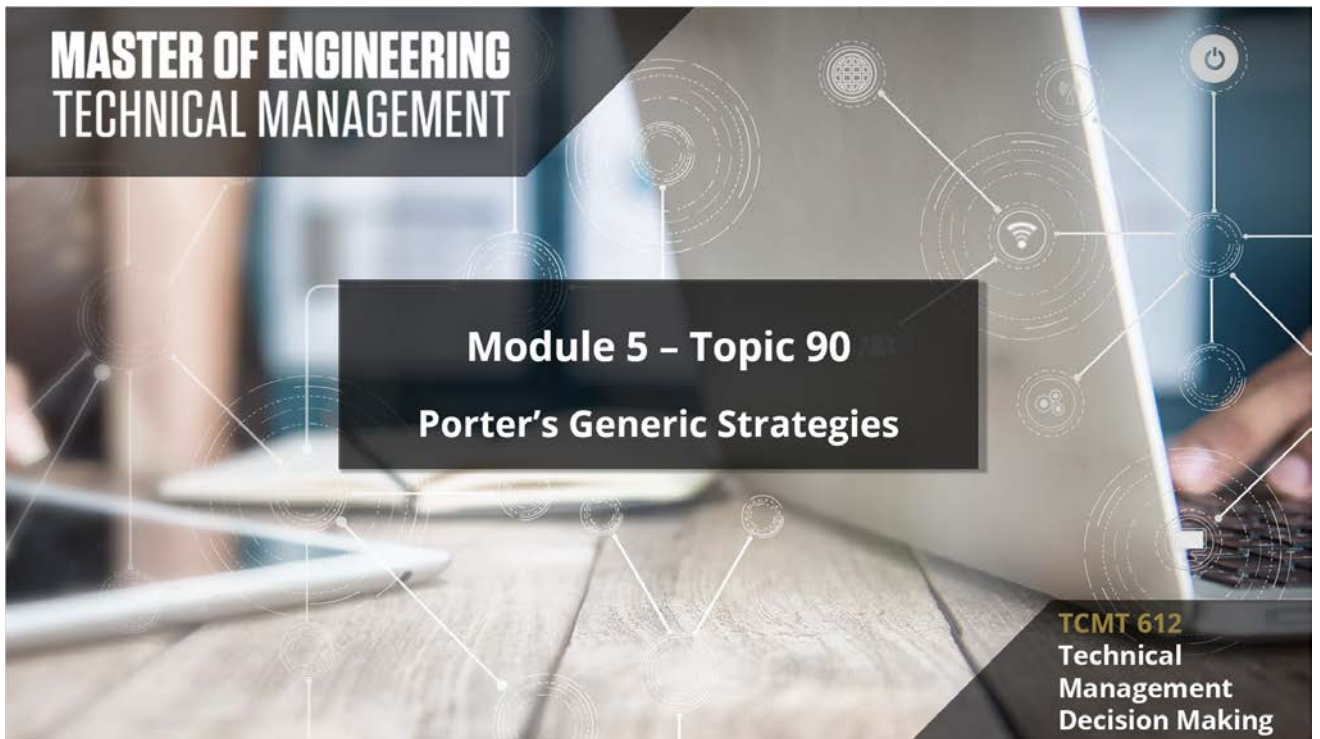


TCMT612_05M_090T_Porter-generic-strategies

1. Main

1.2 Topic title



Notes:

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

1.3 Introduction

Porter's Generic Strategies

How a company creates value and pursues competitive advantage over competing companies in its chosen market.

A firm's strategy is about how a company positions 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.



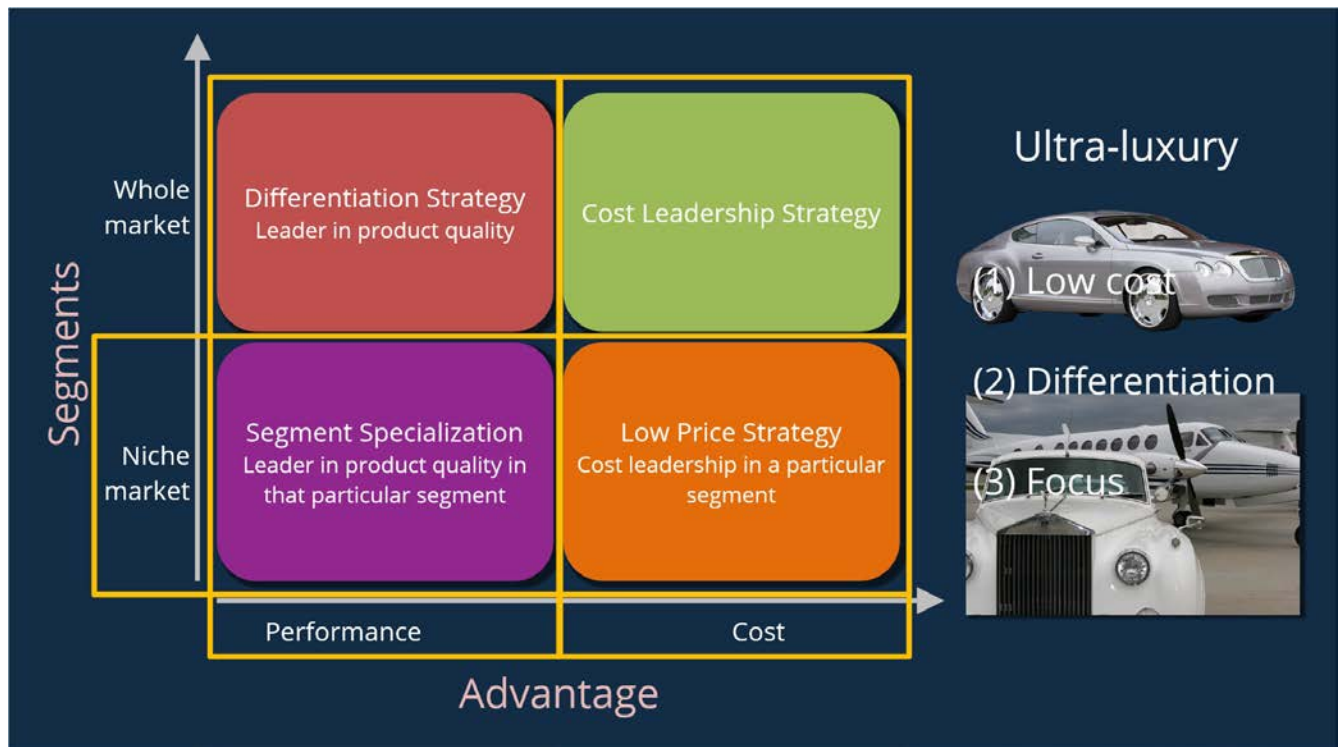
Notes:

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

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1.4 Three types



Notes:

There are three types of generic a strategy: (1) low cost, (2) differentiation, and (3) focus.

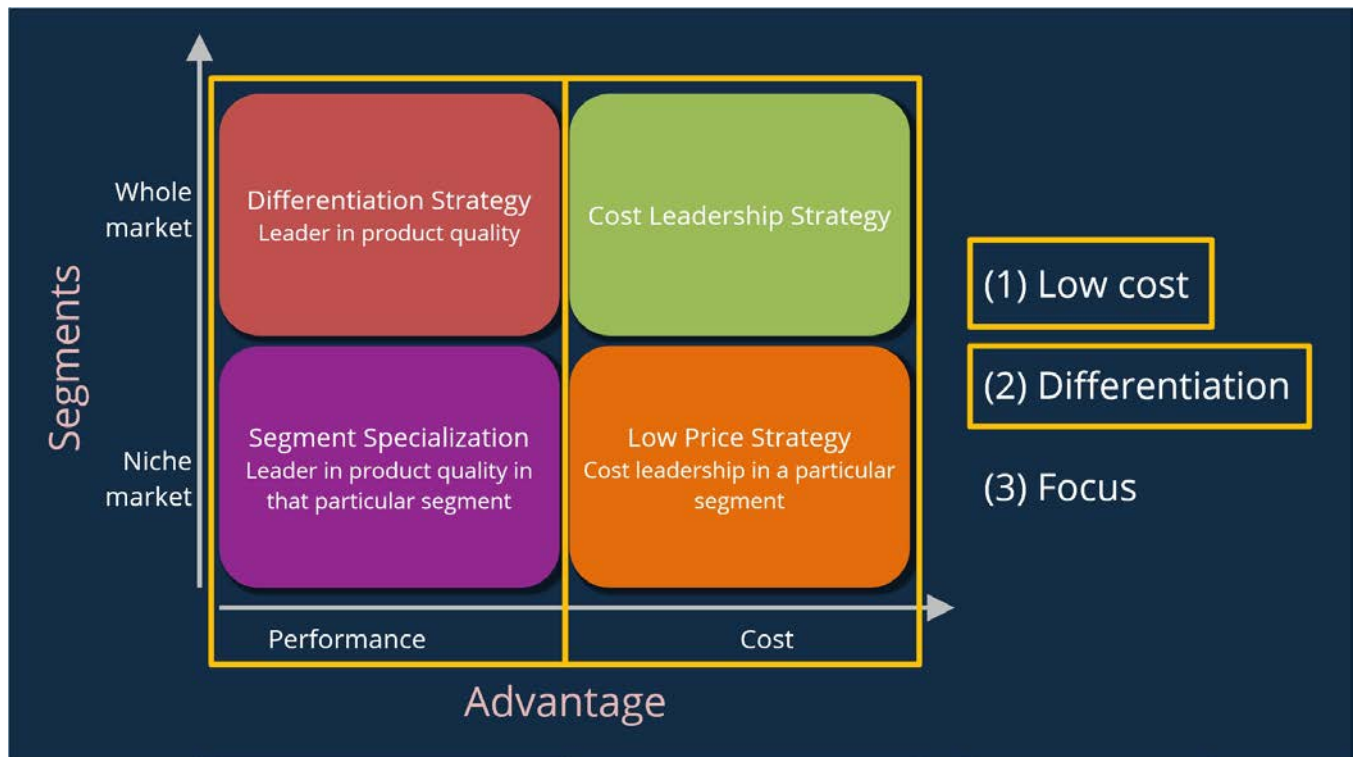
A company can choose to lower the cost of its operation than its competition, or differentiate itself to command higher price.

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 a focused on a narrow set of segments.

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

1.5 First two types



Notes:

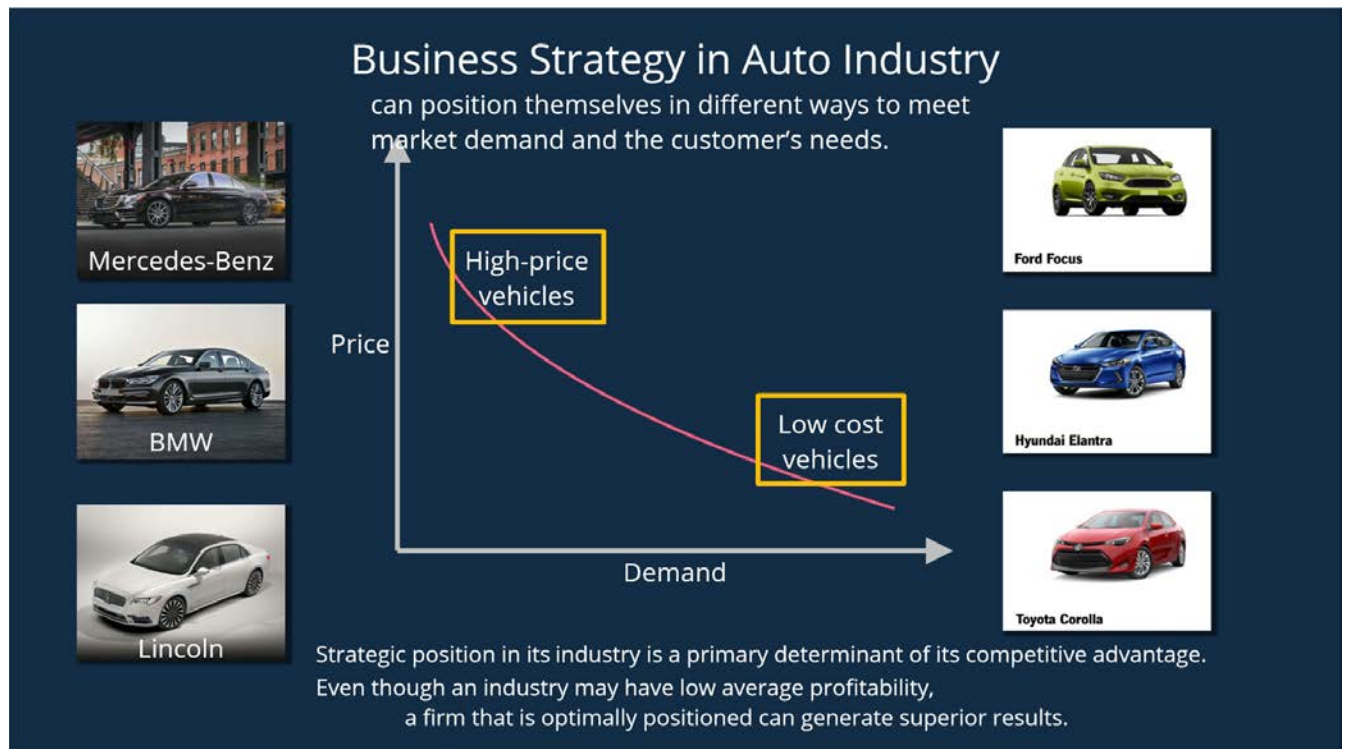
In this lecture our discussion will focus on the first two types of strategies: (1) cost leadership and (2) differentiation.

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

(2) 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 is worthwhile to point out, even though a firm differentiated itself, it may still seek to minimize costs in areas that do not differentiate the company, to remain cost competitive.

1.6 Auto industry



Notes:

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

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

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

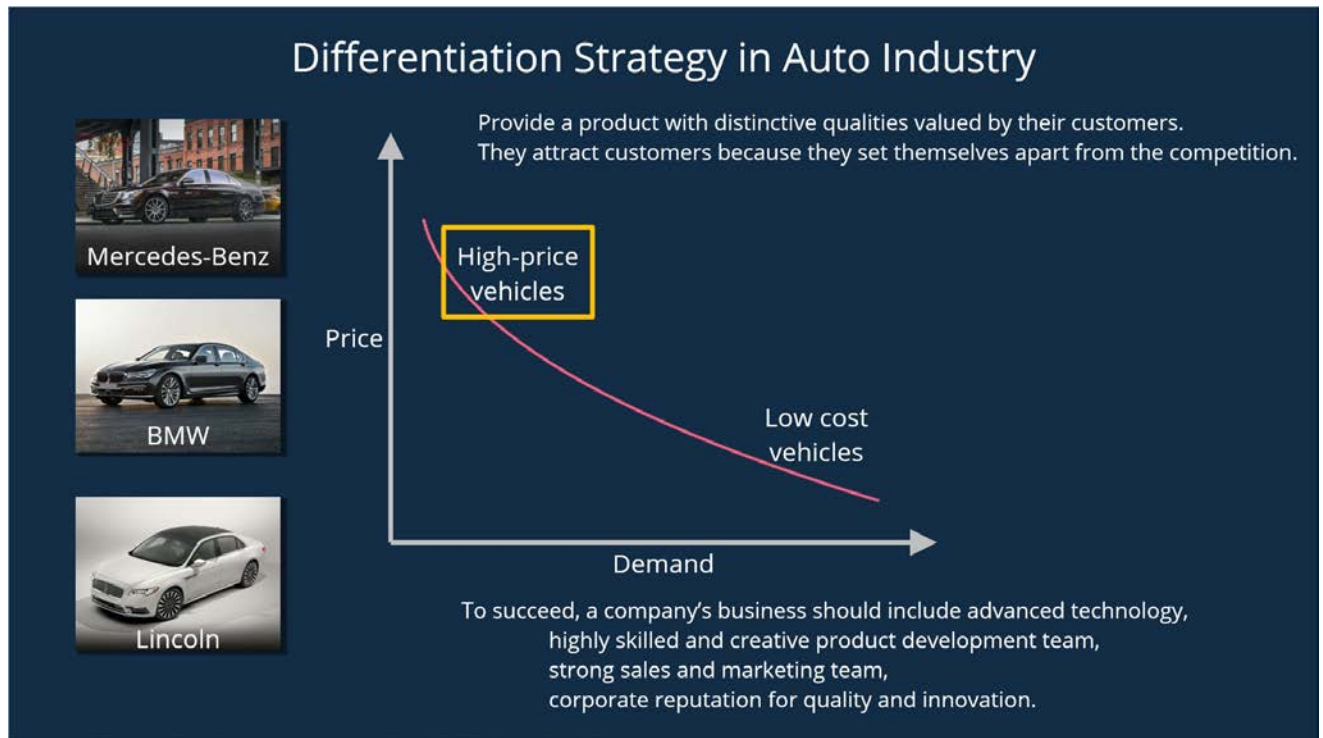
A company could maximize its revenue by choosing specific segments, either high-margin luxury vehicles, or low margin high-volume cars.

Auto company's strategic position in its industry is a primary determinant of its competitive advantage.

Even though an industry may have below-average profitability, a firm that is

optimally positioned can generate superior results.

1.7 Differentiation



Notes:

The companies at the left side follow differentiation strategy.

They are mainly the luxury auto brands.

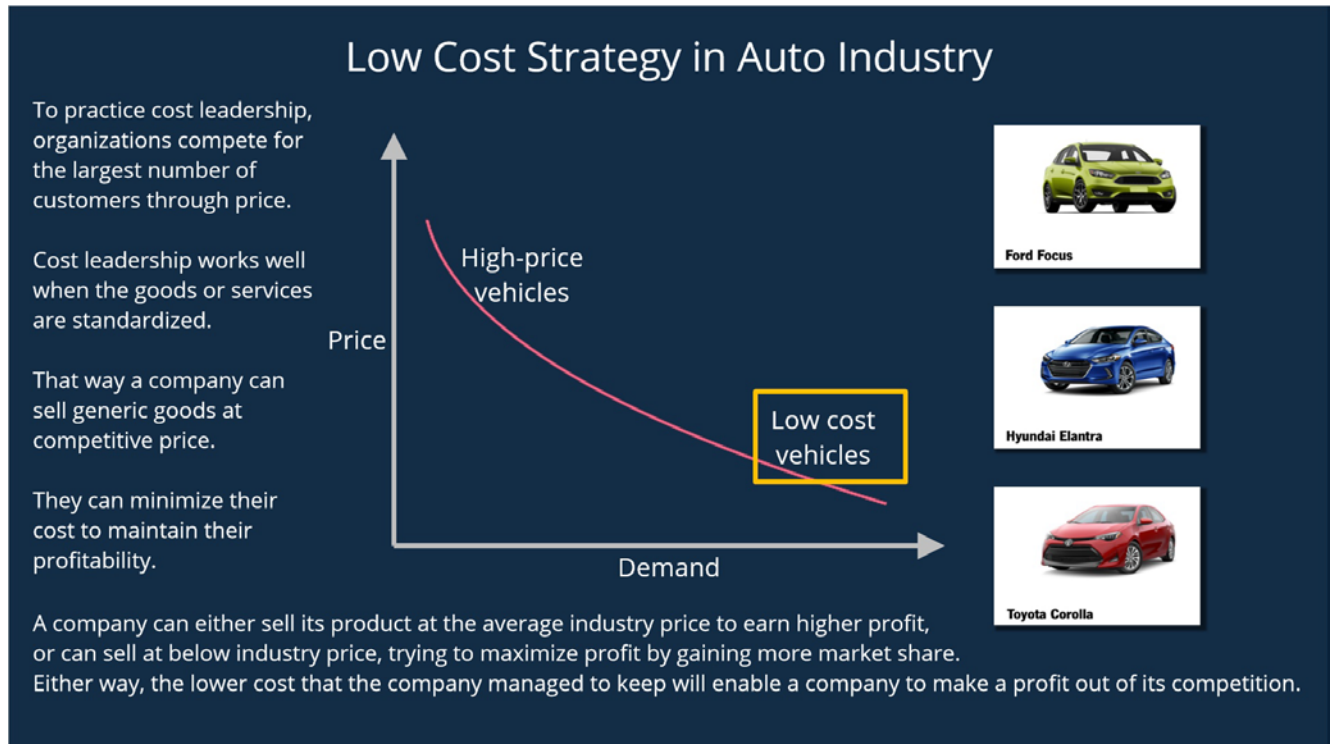
Differentiation strategy calls for a company to provide a product with distinctive qualities valued by their customers.

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

To succeed at this strategy, a company's business should include advanced the 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.

1.8 Low cost



Notes:

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 services 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 product 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 a company to make a profit out of its competition.

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

1.9 Segmentation

Different Branches/Divisions for Multiple Segments



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

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

Notes:

We need to point out that most of the major automakers include different branch or division 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 further that specificity vision.