



LEEDS BECKETT UNIVERSITY
LEEDS BUSINESS SCHOOL

Strategic Planning & Control

Lecture 7: Options for Strategy

Part A : Types of Strategic Options. Product/market Strategy

Part B: Competitive Strategy – Porters 3 Generic Strategies & Application to Mobile Inc

Part C: Competitive Strategy – Bowman's Strategy Clock.

- Links to your assignment

Module Overview

- Lecture A today: Options for Strategy
 - Lecture B: How to choose between them (Evaluation of Strategic Options)
 - Seminars this week (Week 4) – bring your individual Round 2 Global Challenge decisions to class to debate, compare and finalise with your team
 - This week we will brief you on the different seminar activity you will start in part in week 5 and complete in week 6
 - Before next week input your individual decisions for Round 3 Global Challenge
 - Seminars next week will be Round 3 team decisions and results analysis AND you will begin planning for the seminar exercise that you will share in Week 6 (w/c 28th Oct)
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- **LEARNING JOURNALS!**

Seminar Discussion Topics

This week you can discuss the following as part of the decision making in class:

- What information do you have about the External Environment – what Opportunities or Threats does this create?
- Competitor Analysis (Lecture 5) - look for 'clues' to each rival's strategy. Where are the Opportunities from 'gaps' in the market as a result/ Where are the Threats from too much competition?
- Strengths and Weakness' (Lecture 6) - can you identify these for your Mobile Inc company?

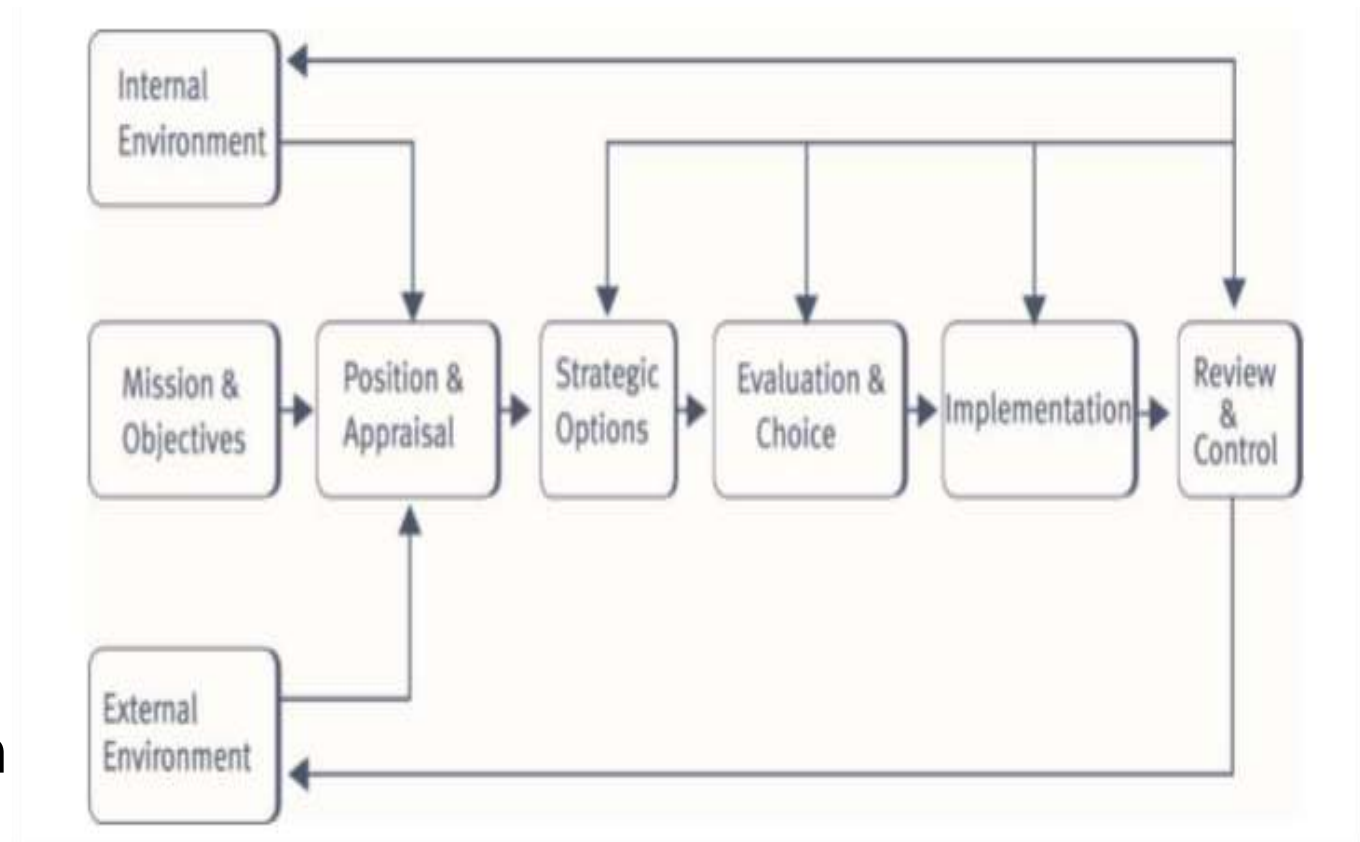
Learning Outcomes

1. To understand the 3 different areas where strategic choices are made – Product/Market Strategy; Competitive Strategy; and Development Strategy
2. To be develop a critical understanding of the merits of 4 product/market strategy options and influences on the suitability of each
3. To develop a critical understanding of Porter's 3 generic strategies and to be able to consider how these could be applied to Mobile Inc in the simulation and then in student's assignments
4. To understand the limitations of Porter's theory and to be able to apply Bowman's Strategy Clock to a business context.

Rational Planning Model

3 main stages

- Strategic Analysis
- Strategic Choice
- Strategic Implementation



This session looks at the different strategies that are available to organisations, focusing mainly on Product/ Market decisions and alternative Competitive Strategy options.



Part A

**Types of Strategic
Options**

Product/Market Strategy

3 types of Strategic Options



Product / Market strategy

Where to compete?

- Which products to offer and which markets to serve



Competitive strategy

How to compete?

- The way in which the firm will win customers profitably from rivals in its selected market



Development Strategy

Which investment vehicle to use?

-methods of corporate growth

3 types of Strategic Option



Product / Market strategy

-We will cover this in this lecture



Competitive strategy

-We will cover this in this lecture



Development Strategy

-We will cover this in Lecture 11

Product / Market Strategy – Ansoff's Matrix

- Product / Market strategy
= **Where** to compete?
= **Which products to offer and which markets to serve**
- Ansoff suggests there are 4 directions an organisation can move in
- Firm is not restricted to 1 of these – it may choose to use more than 1 of these directions
- Different levels of risk attached to the directions , however

Product / Market Strategy :Ansoff's Matrix

		PRODUCTS	
		Existing	New
MARKETS	Existing	Market Penetration	Product Development
	New	Market Development	Diversification

4 directions:

Market Penetration - Existing Products and Existing Markets

Product Development – New Products introduced to Existing Markets

Market Development - Existing Products to New markets

Diversification – New products introduced to New markets

Market Penetration – Existing Products/ Existing Market

Objective	To increase market share in the current market with existing products
Approaches	Increase usage by existing customers eg: <ul style="list-style-type: none">• Increase the spend per customer through quantity discounts (eg family phone deals)• Increase the frequency of purchases by a customer (eg regular phone upgrades)• Advertising,Promotions,Sponsorship,Discounts
	Attract non-users and win customers from competitors <ul style="list-style-type: none">• May need new tactics - price , promotion, advertising, route to market• Route to market - new ways of accessing customer groups eg online
Considerations	<ul style="list-style-type: none">• Easier when market is growing – don't have to win business from competitors to grow• When competition is weak , and the market is not saturated• Suits a firm with an existing strong brand presence , already well established in the market• Suits a firm with strong marketing capabilities
Risk / Cost	<ul style="list-style-type: none">• Low cost• Low risk

Product Development – New Products/ Existing Markets

Objective	To benefit from existing customer relationships , brand strength , and routes to market by using these to offer a wider range of products	
Approaches	Create different quality versions – eg good/better/best ranges in supermarkets	
	Offer modifications of existing products (augmentation)	
	Offer completely new products for existing customer base https://www.corporate.saga.co.uk/about-us/our-divisions/	
Considerations	<ul style="list-style-type: none"> • The firm exploits its existing marketing arrangements such as promotional methods and distribution channels at low cost. • Requires a good knowledge of its customers and their wants and habits. • Competitors will respond to defend the position of their product • Firm must have a strong R&D capability to develop new products • Continuous innovation has the benefit that it will keep products current – avoids obsolescence • Increasing differentiation within the market may cause narrow market segmentation – lower volumes may reduce profit potential 	
Risk / Cost	<ul style="list-style-type: none"> • R&D is costly. • Completely new product introductions are also risky if the firm does not have a presence in the area of the new product. • But risk may be offset by benefits if firm has strong insight into the customer base – tastes, habits & preferences. 	

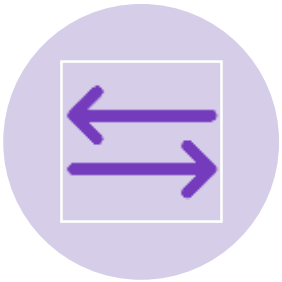
Why are New Product Introductions Costly & Risky?



In some industries new product ideas are in short supply



Typically have to develop many new product ideas to produce a good one – costly!



Products may have a short life cycle , and competitors may be quick to copycat – advantage gained may be short lived



May be risk of cannibalisation – new product steals sales from existing products

Market Development – Existing Products/ New Markets

Objective	Increase sales by taking proven product to new markets	
Approaches	New geographic areas	
	New demographic areas – age groups , sexes , lifestyle	
	eg Lucozade	eg cruises
	 	
	New distribution channels eg retail vs online ; specialist shops vs supermarkets	
	Differential pricing: eg holiday companies offering cheap long breaks abroad for retired couples in the Winter whilst in Summer offering shorter more expensive holidays in the same location.	
Considerations	<ul style="list-style-type: none"> • Entering a new market segment will require new skills and knowledge that relate to the new market eg New geographic markets - language, culture, distribution methods • Research will be required • Strong marketing capability required to communicate product to new market • Geographic – strong global brand will help 	
Risk / Cost	<ul style="list-style-type: none"> • Risk comes from unfamiliarity with the new market • Company is also dependent on one product. • Research , marketing & distribution infrastructure costs but no R&D investment as an existing product 	

Diversification – New Products/ New Markets

Objective	Firm must be very clear what its objective is , as it is a high risk approach.
Approaches	New products to new markets – examples of each on earlier slides
Considerations	<ul style="list-style-type: none">• All the considerations that apply to developing new products and entering new markets apply – all at the same time• May be appropriate when existing market is saturated and products have reached the end of their product life cycle
Risk / Cost	<ul style="list-style-type: none">• Costs as requires both R&D and research into new markets• Highest risk option – diverts resources to high risk new products in markets which are unfamiliar



Part B

Competitive Strategy

**Porter's 3 Generic
Strategies and
application to Mobile Inc**



Competitive Strategy

- Competitive strategy
= **How** to compete?
= **The way in which the firm will win customers profitably from rivals in its selected market**
- Objective is to gain “**Competitive Advantage**” (Michael Porter)
- Competitive Advantage is anything that gives one company ‘the edge’ over its rivals.
- Strategy should be designed to create sustainable **Competitive Advantage**

Strategies for Competitive Advantage

Michael Porter argued that there are **only 3** 'generic strategies' through which an organisation could successfully achieve competitive advantage....



Cost Leadership

- emphasis on keeping costs down
- opens profit margin by lowering costs more than competitors can



Differentiation

- a 'better' product is sold
- opens up the profit margin by increasing the selling price



Focus

- Firm concentrates on a small 'segment' of the market
- Chooses to operate as a Cost Leader or Differentiator in that segment.



Cost Leadership

- **The business organises itself to become the lowest cost producer in the market**
- It can then earn higher profits whilst charging the same price as rivals (or undercutting them)
- **Some myths about Cost Leadership:**
- Its does not mean its product is inferior – its a comparable product but made more efficiently!
- It does not necessarily mean that the selling price of the product must be lower than competitors since:
- Can sell at a comparable price to rivals but will make more profit as its costs are lower....
- Some care needs to be taken with undercutting rivals –
 - ✓ Its likely to produce an increase in sales volume
 - ✗ But it might provoke a price war which risks damaging the profits of all companies in the market!



Cost Leadership: How to achieve it?

Quiz.....

In the case of Mobile Inc in what ways could the company reduce the unit production cost of its product (Tech 1,2 3 or 4 phones)?

Clue: think about some of the decisions you make?



Cost Leadership: How to achieve it?

General advice...

- Copy product designs rather than originate new designs (Lower R&D)
- Use cheaper materials
- Simplify product design - 'no frills'
- Achieve high sales volumes which will allow 'economies of scale' (spreading fixed production costs over a larger volume of production)
- Choose to locate production or operations in areas where a cost advantage exists
- Achieve learning curve benefits

Cost Leadership: Benefits / Risks

BENEFITS	RISKS
High volumes needed create barrier to entry	No fallback position if cost leadership is lost
Can win price wars whilst staying profitable	Larger rivals could enter market (possibly from overseas)
Reduced power of substitutes	Strong currency makes imports cheaper
	Price wars damaging to profits



Differentiation

- **The business offers a superior product in ways that cannot be matched by rivals, and which are valued by customers.**
- It can then charge a higher price and make more profit.



**Differentiation:
How to achieve it?**

Quiz.....

In the case of Mobile Inc in what ways could the company create a product that is 'differentiated' from that of its rivals?

Clue: think about some of the decisions you make?



Differentiation: How to achieve it?

General advice...

- Superior product - design, technology, performance
- NB need to communicate that superiority to consumers – marketing/ advertising/ promotion
- Added value services
- Prime locations (eg retail , hotels)
- Create a strong brand image (NB marketing/ advertising/promotion again)
- Augment the product – extra features
- Continuous innovation – new products

Differentiation: Benefits / Risks

BENEFITS	RISKS
Premium price allows for higher gross profit margin	Often easily copied in the long run
Brand loyalty – repeat purchases	Need to constantly innovate
Not competing on price – competitive advantage from unique attributes may be harder for rivals to destroy – less risk of customers moving to rivals	Higher marketing & R&D costs than cost leadership route
Avoids threat of price wars	Smaller volumes - cost of product likely to be higher
	Perform badly in a recession



Focus

- The business identifies one particular niche in the market in which to compete
- The ‘market segment’ will be a group of consumers with similar needs
- Define by : eg age, sex, demographics, income , lifestyle, geography
- Pursue either a Differentiation Focus strategy or a Cost Focus strategy within the niche
- Research into customer needs in the ‘niche’ and what the competition is offering will be essential to success

Focus: Benefits / Risks

BENEFITS	RISKS
A niche is identified which is not being served by existing broad strategy firms – so less competition	Low volumes – adequate return on investment?
Allows specialisation- creates brand loyalty	If successful attracts competition from Differentiators or Cost Leaders in the wider market
	Few barriers to entry

A 'Focus' Strategy in Action – case study:

A 'Focus' Strategy in Action – case study

- 1999 – sold Smoothies at a Music Festival
- 2000 – first listing in a supermarket (Waitrose)
- Success!
- Supermarkets copy the product
- Coca Cola takes an 18% stake in the company in 2008
- Coca Cola buys out the founders of the company in 2013



Stuck in the Middle?

Porter argues that a business that fails to position itself in one of the 3 generic positions will be “stuck in the middle”

It will lose some customers who will move downmarket to the Cost Leader

It will lose other customers who will move upmarket to a Differentiator

It will lose some customers who will move to a rivals who Focus on their specialist needs





Part B

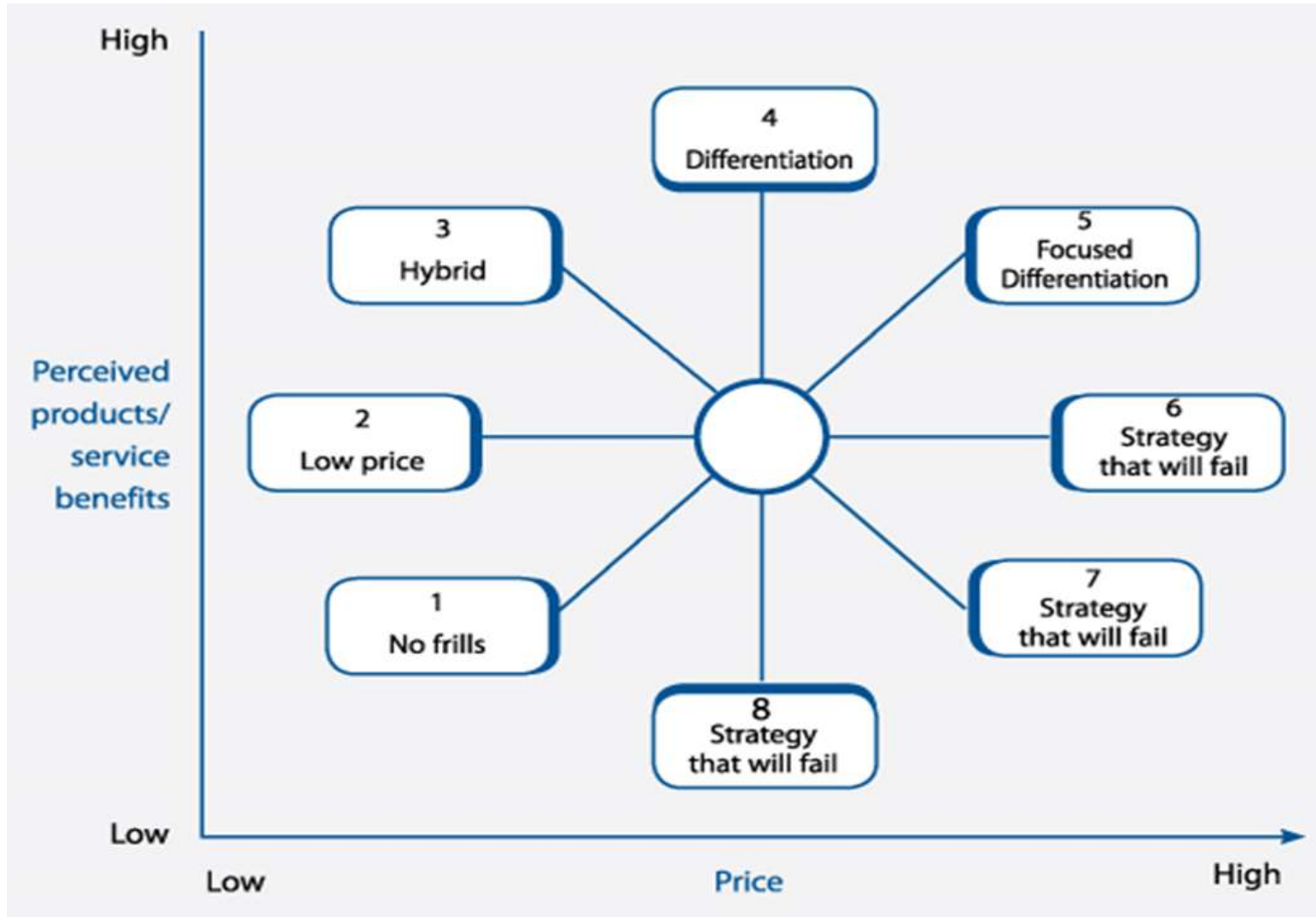
- **Competitive Strategy:
Bowman's Strategy Clock**
- **Links to your Assignment**



Bowman's Strategy Clock

- Bowman argues it's not as simple as a choice between 3 strategies
- Customers are looking for best value
- Competitive strategy should offer an appropriate package of price/ product attributes in a combination that is valued by customers

Bowman's Strategy Clock





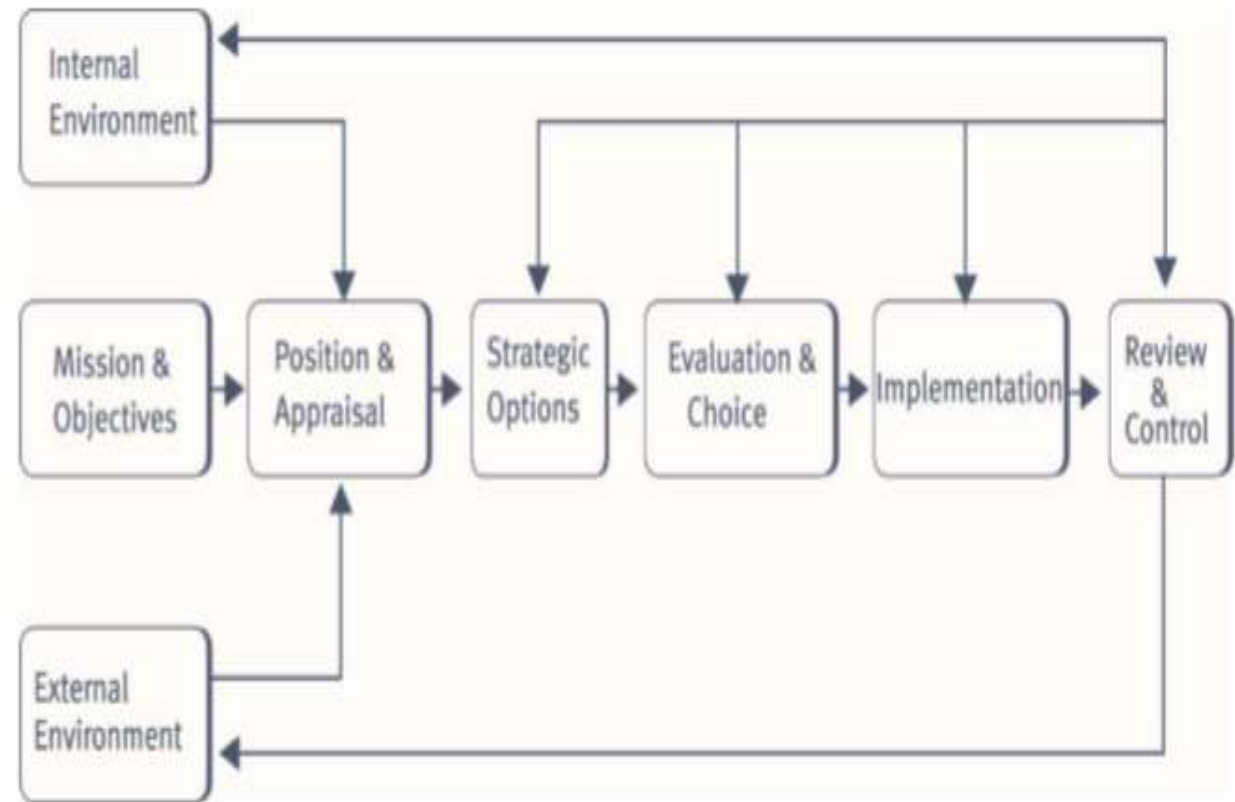
Quiz

- Thinking about the airline industry ...
- Can you think of an airline for positions 1 to 5 on the strategy clock?

Rational Planning Model

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3 types of Strategic Options



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Development Strategy

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Link to your Assignment....

5.Evaluation and Choice of Strategy

Evaluate 2 of the following 3 strategies as ways forward for Mobile Inc. You should use the **Suitability, Feasibility, Acceptability** framework to do this.

Cost Leadership (Michael Porter)

Differentiation (Michael Porter)

Hybrid (Bowman – Strategy Clock)

Your evaluation should be made in the light of the Strengths, Weakness', Opportunities and Threats you have prepared for Mobile Inc. and **you should reach a clear conclusion on your choice of strategy.**

You should use the guidance in Lecture 8 (Evaluation of Strategic Options) to carry out your evaluation.

Link to your Assignment....

- Note the word 'Evaluate'
- You are not being asked to describe the 3 strategies and no marks are available for this
- You are being asked to weigh up how appropriate each strategy is to the position of your own Mobile Inc Company at the end of Round 5
- There is no one generic right answer to this – it is about your applying your knowledge from Lectures to your detailed understanding of your Mobile Inc company's position and the Internal and External appraisal you will already have completed....
- We will be teaching you the tools to use to do this in our next Lecture (8) on Evaluation of Strategic Options....

Cost Leadership & Differentiation in Action – “Posh Paints”

Go to the following link for Screwfix – what is the cheapest 10L Magnolia Matt emulsion paint ? Who is the supplier and what is the price?

https://www.screwfix.com/c/decorating/emulsion-paints/cat850168?colourgroup=cream&sort_by=price

Go to the following link for Farrow & Ball – how much is a 5L tin of Slipper Satin paint.

(You'll need to click on Slipper Satin in the colour chart, select a ' surface' and a ' finish' to get to the price..)

<https://www.farrow-ball.com/paint-colours?s=az>

Now have brief look around the Farrow & Ball website – identify 2 factors that might justify the price difference in the eyes of a customer?

[75 Years of Perfecting Paint \(farrow-ball.com\)](https://www.farrow-ball.com/75-years-of-perfecting-paint)

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Thank you

Any questions?