

## Agenda for today

### Generic Business Strategies

- **Business-level strategies?**
  - How can firms differentiate, and what are its benefits?
  - What are the challenges for Implementation?
- **Focus Strategies**
  - Japanese Beer Industry
- **Strategy as Positioning**
- **Ambidexterity**

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## Differentiation

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## Differentiation

- Generate economic value by offering a product that customers prefer over competitors' product
- A business level strategy intended to:
  - Increase the perceived value of the focal firm's products and / or services relative to the value of competitor's products and / or services
  - create a customer preference for the focal firm's products and / or services

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## Improves competitive positioning

- Creates higher entry barriers due to customer loyalty
- Provides higher margins that enable the firm to deal with supplier power
- Establishes customer loyalty and hence less threat from substitutes

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## Differentiation

### Bases of differentiation

1. **Product Attributes:** exploiting the actual product; select product positioning in relation to product attributes
2. **Firm – Customer Relationships:** exploiting relationships with customers; select target customer group, ensure customer /product compatibility
3. **Firm Linkages:** exploiting relationships within the firm and/or relationships with other firms

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## Bases of Differentiation

### Product Attributes

- **Product Features**—the shape of a golf club head
- **Product Complexity**—multiple functions on a watch
- **Timing of Introduction**—being the first to market
- **Location**—locating next to a freeway exit

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## Bases of Differentiation

### Firm – Customer Relationships

- **Customization**—creating a unique diamond bracelet for a customer
- **Consumer Marketing**—creating brand loyalty to a soap through image advertising
- **Reputation**—sponsoring the local homeless shelter to engender positive community response

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## Bases of Differentiation

### Firm Linkages

- **Linkages among Functions in the Firm**—using a circuit board designed in one division in other divisions
- **Linkages with other Firms**—a sporting goods store sponsors a benefit race by donating running shoes and receives free radio advertising in return
- **Product Mix**—a furniture store begins to sell home gym equipment, computers, and lawn mowers
- **Distribution Channels**—a doughnut shop begins to sell its doughnuts through gas stations
- **Service and Support**—an oil change shop begins to offer pick up and delivery of cars in an office building's parking garage

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## Differentiation: benefits

- Differentiation offers the prospect of charging a **premium price**
- Demand for a differentiated product will be **less elastic** than that for competitors products
- Differentiation can result in **above average profits**
- Differentiation can create additional **barriers to entry** to the market for newcomers

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## Risks of differentiation strategy

- There are difficulties of sustaining differentiation
  - Differentiation involves higher costs
- There is a risk of creating differences that customers do not value
  - Customers might become price sensitive and choose on price rather than uniqueness
  - It might involve differentiation on dimensions that become less important to customers over time
  - Customers may no longer need the differentiation factor
- Imitators may narrow the differentiation
  - Rivals pursuing a focus strategy may be able to achieve even greater differentiation in their market segments

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## Pitfalls of differentiation

- Uniqueness that is not valuable
- Too much differentiation
- Too high a price premium
- Differentiation that is easily imitated
- Diffusion of brand identification through product-line extensions
- Perceptions of differentiation may vary between buyers and sellers

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## Competitive Advantage Through Differentiation

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### Competitive Advantage

**A product differentiation strategy must meet the VRIO criteria...**

- Is it **V**aluable?
- Is it **R**are?
- Is it costly to **I**mitate?
- Is the firm **O**rganized to exploit it?

**...if it is to create competitive advantage.**

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### The Value of Product Differentiation

Neutralizing Threats

Toyota protected from Hyundai

Entry

Industry

Focal Firm

Threat

Buyers: Chrysler's Crossfire

Rivalry: Allen Edmonds & Cole Hahn

Substitutes: Home vs. Photo Shop Printing of Digital Pictures

Suppliers: Ruth's Chris Steak House

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### The Value of Product Differentiation

#### Exploiting Industry-Type Opportunities

Fragmented Industry

Branding: commodity — differentiated product

*Example: Kellogg's Corn Flakes*

Emerging Industry

First mover advantages: captures market share

*Example: Motorola Cell Phones*

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### The Value of Product Differentiation

#### Exploiting Industry-Type Opportunities

Mature Industry

Refining product or adding services

*Example: Ford's emphasis on service*

Declining Industry

Exploiting niches: serving those with strong needs

*Example: NEWT at the Royal Hawaiian*

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### The Value of Product Differentiation

**Exploiting Other Opportunities**

**Trends or Fads**

- spinners
- surf clothing

**Social Causes**

- themed credit cards
- animal safe clothing

**Government Policy**

- Toyota Prius
- airport x-ray machines

**Economic Conditions**

- outplacement agencies
- check cashing services

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### Rareness of Product Differentiation

**By definition, we assume rareness**

- if a product is differentiated, it is rare enough
- customer preferences are evidence of a differentiated product
  - increased volume of purchases
  - and/or a premium price

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### Imitability of Product Differentiation

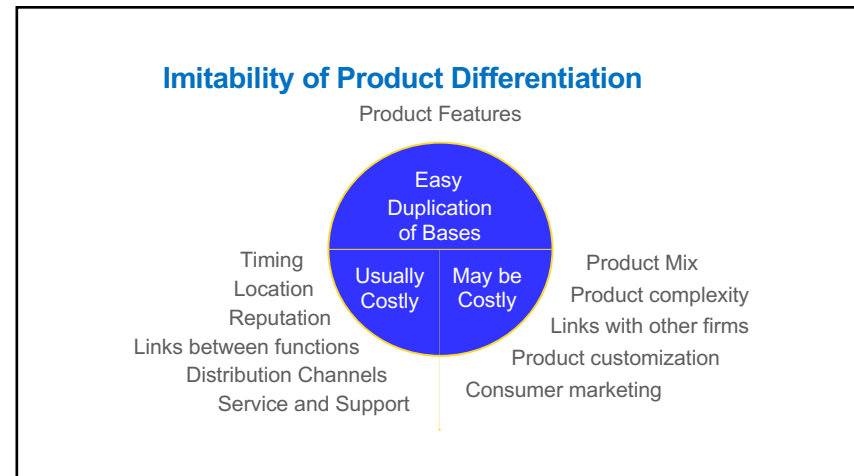
**Logic of costs of imitation**

- If would-be imitators face a cost disadvantage of imitation, they will rationally choose not to imitate.

**Sources of costs of imitation**

- historical uniqueness
- causal ambiguity
- social complexity

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## Imitability of Product Differentiation

### Substitutes

- Some substitutes may be obvious.
- Some substitutes may not be obvious.
- If no substitutes are obvious, then we would conclude that imitation through substitution will be costly—at least for the present time.
- If a base of differentiation is valuable, others will attempt to imitate it through duplication and/or substitution.

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## Implementation

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## Commonly required skills & resources

- Strong marketing abilities
- Product engineering
- Creative abilities
- Strong basic research
- Corporate reputation for quality or technology
- Strong cooperation from channels

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## Common organisational requirements

- Strong coordination among R&D, product development and marketing
- Subjective measurement and incentives instead of quantitative measures
- Amenities to attract highly skilled labour scientific community & creative people

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## Organizing for Product Differentiation

### Organizational Structure

- U-Form with cross-functional teams

### Management Controls

- flexibility
- broad guidelines
- creativity encouraged

### Compensation Policies

- Reward:
- cross-functional cooperation
  - creativity
  - risk taking

*Example: Ford Taurus Cross-Functional Teams*

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## Implementation Issues

### Differentiation

<i>Generic strategy</i>	<i>Key strategy elements</i>	<i>Resource and organizational requirements</i>
Differentiation	<ul style="list-style-type: none"> <li>• Emphasis on branding advertising, design, service, quality, and new product development</li> </ul>	<ul style="list-style-type: none"> <li>• Marketing abilities</li> <li>• Product engineering skills</li> <li>• Cross-functional coordination</li> <li>• Creativity</li> <li>• Research capability</li> <li>• Incentives linked to qualitative performance targets</li> </ul>

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## Focus Strategies

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## Focus strategy

- In a focus strategy the firm concentrates on one (or at most a limited number of) segments of the market
- The premise behind this strategy is that the needs of the group can be better served by focussing entirely on it
- The firm might feel more secure in the niche with greater insulation from competition
- A focus strategy means that the firm's efforts are not spread too thinly
- Focus strategies are
  - Cost focus: cost leader in a particular segment
  - Focus differentiation: differentiation in the chosen segment

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## Requirements of a focus strategy

- A focus strategy requires...
- The identification of a suitable target customer group
- Identification of the specific needs of that group
- Confirmation that the market is sufficiently large to sustain the business
- Estimation of the extent of competition within the segment
- Production of products to meet the specific needs of that group
- A decision on whether to opt for cost leadership or differentiation within the segment

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## Japanese Beer Industry

### Industry Segmentation and Focused Strategies

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## Japanese Beer Industry

### Industry Segmentation and Focused Strategies

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## Benefits of a focus strategy

- It involves lower investment in resources
- The firm benefits from specialisation
- It provides scope for greater knowledge of a segment of the market
- It makes entry to new markets easier and less costly
- Firms using a focus strategy often enjoy a high degree of customer loyalty

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## Focussed cost leadership

- A strategy that aims...
- To attract one type of customer with a low cost product
- To be the lowest cost operator in one particular niche segment of the market
- Example :Hyundai

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## Focussed differentiation

- A strategy that aims to attract one type of customer with a differentiated product
- It involves distinctiveness in one segment
- Aims to exploit unique position in a niche segment of the market
- Not the cheapest but the best or most distinctive in that segment
- Example: BMW, Mercedes

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## The five forces and a focus strategy

The five forces	A firm pursuing a focus strategy...
Entry barriers	Develops core competencies that can act as an entry barrier
Buyer power	Enjoys some insulation since large buyers have less power to negotiate because few alternatives are available
Supplier power	Is better able to pass on supplier price rises thereby reducing the impact of supplier power
Threat of substitution	Enjoys some protection against substitutes by specialised products and core competencies
Rivalry	Enjoys some protection because rivals cannot meet differentiation focused customer needs

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## Problems associated with focus strategy

- Limited opportunities for growth
- Sacrifice of economies of scale that would be available from a larger market
- The firm could outgrow the market
- Danger of decline in the chose segment or niche
- A reputation for specialisation inhibits move into new sectors
- Risk of imitation
- Risk of changes in the target segment

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# Strategy as Positioning

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## What is strategy?

### Positioning

- Strategy is the creation of a unique and valuable position
  - Serving few needs of many customers
  - Serving broad needs of many customers
  - Serving broad need of many customers in a narrow market
- The essence of Strategy is choosing what not to do
- Strategy is creating a fit among a company's activities

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## Positioning

### What a company must do

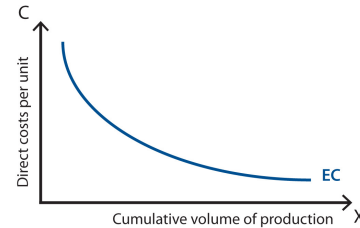
- Deliver greater value to customers  
(higher average unit price)
- Create comparable value at a lower cost  
(lower average unit cost)
- Performing different activities than rivals

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## Operational effectiveness

### Is it enough?

- Performing similar activities better than rivals
- Operational effectiveness necessary but not sufficient
  - Can be replicated
  - Over capacity
  - Reduced capability for innovation



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## Strategic positioning

### Ways to get Competitive Advantage

- Performing *different* activities or performing similar activities in *different* ways
  - **Variety based positioning:** particular product or service
  - **Needs based positioning:** particular customer segment
  - **Access based positioning:** delivery channel
- **Marketing myopia:** companies fail to adapt and respond to constantly changing consumer tastes and demands

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## Imitation of Strategic Positioning

### Why straddling or repositioning is difficult...

- Strategic positioning is not sustainable unless there is trade-off with other positions
  - Inconsistencies in image or reputation
  - Inflexibility in activities
  - Limits on internal coordination and control

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## Cost Leadership & Differentiation

### Can a firm pursue both simultaneously?

#### No

Use of structure, management control, and compensation policies are nearly opposites.

*Example: Rolex*

#### Yes

Firms can do both because some bases of differentiation also lend themselves to low cost.

Structure, controls, and policies are not opposites.

*Example: Toyota*

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## Ambidexterity

### Exploitation vs Exploration

- *Exploitation* and *exploration* are two fundamentally different **learning activities** between which firms divide their attention and resources (March, 1991)
- Long-term survival and success depend on an organization's ability to "engage in **enough exploitation to ensure the organization's current viability** and to engage in **enough exploration to ensure future viability**" (Levinthal and March, 1993)

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## Ambidexterity

### Exploitation vs Exploration

- Exploitation is associated with activities such as "**refinement, efficiency, selection, and implementation**"
  - One-sided focus on exploitation may **enhance short-term performance**, but it can result in a **competency trap** because firms may not be able to respond adequately to environmental changes
- Exploration refers to notions such as "**search, variation, experimentation, and discovery**"
  - Too much exploration may enhance a firm's ability to renew its knowledge base but can trap organizations in an **endless cycle of search** and unrewarding change

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## Summary

### Porters Generic Strategies

- **Differentiation**
  1. Product Attributes
  2. Firm – Customer Relationships
  3. Firm Linkages
- **Competitive Advantage through Differentiation**
- **Implementation Issues**
- **Focus Strategies**
- **Strategy as Positioning**
- **Ambidexterity**

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