

Agenda for today

Generic Business Strategies

- What are business level strategies?
- How can firms differentiate and what are its benefits?
- What are challenges for Implementation?

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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

- 1. Product Features**—the shape of a golf club head *Sound.*
- 2. Product Complexity**—multiple functions on a watch *Apple watch.*
- 3. Timing of Introduction**—being the first to market *Maruti. Service.*
- 4. Location**—locating next to a freeway exit *Retail. Location. Walmart.*



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Bases of Differentiation

Firm – Customer Relationships

- Customization**—creating a unique diamond bracelet for a customer *RE*
- 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 *Sony chip. TV. Gaming. Sound.*
- 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 *one stop sol'n.*
- 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

Sony → Samsung

- 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

Tata

- Uniqueness that is not valuable
- Too much differentiation
- Too high a price premium *Harley Davidson*
- 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

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The Value of Product Differentiation

Exploiting Industry-Type Opportunities

Fragmented Industry

Branding: commodity — differentiated product *XP95*

Example: Kellogg's Corn Flakes

Emerging Industry

First mover advantages: captures market share *Ola. TVs Ather*

Example: Motorola Cell Phones

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The Value of Product Differentiation

Exploiting Industry-Type Opportunities

Mature Industry

Refining product or adding services *Brand Product. ↳ R&D VK. J-series*

Example: Ford's emphasis on service

Declining Industry

Exploiting niches: serving those with strong needs *↳ chip ↳ 31 ↳ 564 ↳ gaming consoles*

Example: NEWT at the Royal Hawaiian

Focused Differentiator

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The Value of Product Differentiation

Exploiting Other Opportunities

ADV.

- 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

EV

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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

traffic → low end torque 80km/h

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Imitability of Product Differentiation

Product Features *20 NM 20 BHP !!*

Easy Duplication of Bases

Usually Costly | **May be Costly**

- Timing
- Location
- Reputation
- Links between functions
- Distribution Channels
- Service and Support

Product Mix

- Product complexity
- Links with other firms
- Product customization
- Consumer marketing

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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 *MNC*
- Product engineering
- Creative abilities
- Strong basic research *R&D*
- 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

<p>Organizational Structure</p> <ul style="list-style-type: none"> • U-Form with cross-functional teams 	<p>Management Controls</p> <ul style="list-style-type: none"> • flexibility • broad guidelines • creativity encouraged 	<p>Compensation Policies</p> <p>Reward:</p> <ul style="list-style-type: none"> • cross-functional cooperation • creativity • risk taking
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Example: Ford Taurus Cross-Functional Teams

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Implementation Issues

Differentiation

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

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Cost Leadership and Product Differentiation

Am I understood?

Can a firm pursue both simultaneously?

<p style="text-align: center;"><u>No</u></p> <ul style="list-style-type: none"> • Use of structure, management control, and compensation policies are nearly opposites. <p style="text-align: center; color: red;"><i>Example: Rolex</i></p>		<p style="text-align: center;"><u>Yes</u></p> <p>Firms can do both because some bases of differentiation also lend themselves to low cost.</p> <ul style="list-style-type: none"> • Structure, controls, and policies are not opposites. <p style="text-align: center; color: red;"><i>Example: Toyota</i></p>
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Summary

Porters Generic Strategies

- **Differentiation**
 1. Product Attributes
 2. Firm – Customer Relationships
 3. Firm Linkages
- **Competitive Advantage through Differentiation** VRIO
- **Implementation Issues**

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