

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

Value → Price.

- 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
marvel – mcdonalds. Intel – Lenovo.

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Bases of Differentiation *Nike.*

Product Attributes

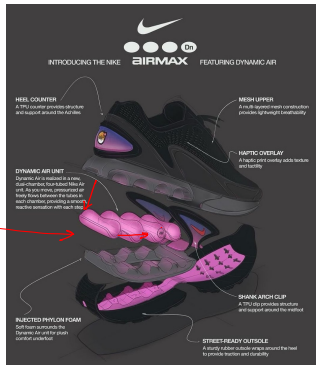
- 1 • Product Features**—the shape of a golf club head
- 2 • Product Complexity**—multiple functions on a watch
- 3 • Timing of Introduction**—being the first to market
- 4 • Location**—locating next to a freeway exit

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Bases of Differentiation

Product Attributes

- Nike offers cutting-edge product features in footwear and apparel, driven by innovation, performance, and design.
- Nike Air Technology:** Revolutionary cushioning technology that sets Nike's shoes apart in terms of comfort and performance.
- Flyknit Material:** Lightweight and environmentally sustainable material used in shoes to provide flexibility and support.



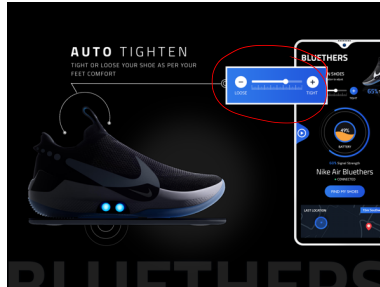
Nike Air Max shoes with an emphasis on the Air bubble technology

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Bases of Differentiation

Product Attributes

- Technological Innovation:** Nike continuously introduces performance-enhancing features such as self-lacing technology (Nike Adapt) and sustainable products (Nike Space Hippy).
- Design & Aesthetic:** Nike's iconic designs, from Air Jordans to VaporMax, combine performance and style.
- Nike Adapt:** Self-lacing shoes that adjust fit automatically using smartphone integration.



Nike Adapt shoes, highlighting the smartphone control feature

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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

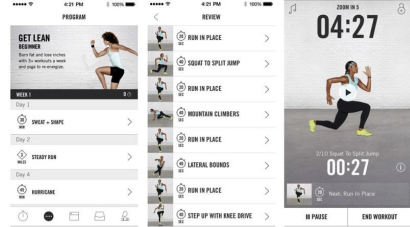
functional *emotional.*

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Bases of Differentiation

Firm – Customer Relationships

- Nike builds strong customer relationships through personalized experiences, community engagement, and innovative marketing campaigns.
- **Nike Membership Program:** Offers members exclusive product access, personalized workout plans, and early releases.
- **Nike Training Club (NTC) App:** Provides personalized training sessions and fitness content tailored to customer goals.




Screenshot of the Nike app showing personalized workout plans

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Bases of Differentiation

Firm – Customer Relationships

- **Brand Loyalty & Emotional Connection:** Nike's "Just Do It" campaign resonates emotionally with customers, encouraging them to push their limits.
- **Engagement:** Nike engages its audience through storytelling, sponsoring athletes like LeBron James and Serena Williams, and social initiatives like the "Equality" campaign.
- **"Just Do It" Campaign:** Motivational ads that inspire individuals and build a deep emotional connection with the brand.



Nike's "Just Do It" ad featuring an athlete, emphasizing empowerment

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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

Sony *Laptop* → *gaming console.*

market RE

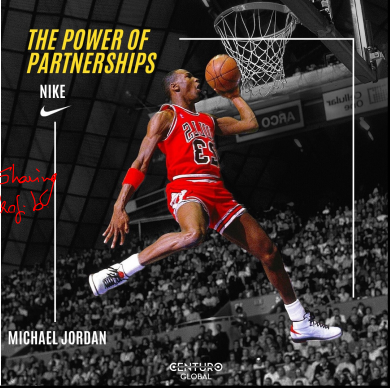
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Bases of Differentiation

Firm Linkages

- Nike has built strategic partnerships with suppliers, athletes, and other firms to enhance its brand value and ensure product innovation.
- **Athlete Endorsements:** Partnerships with high-profile athletes like Michael Jordan (Air Jordan brand) and Cristiano Ronaldo (CR7 collection).
- **Collaborations:** Nike frequently collaborates with designers (e.g., Virgil Abloh) and other brands (e.g., Supreme) to create exclusive collections.

Michael Jordan with Air Jordan sneakers, emphasizing the athlete-brand partnership.



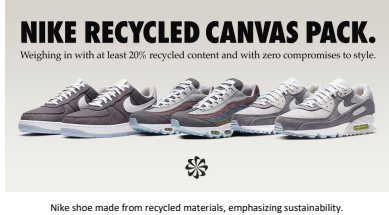
Staying Prof. 10/1

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Bases of Differentiation

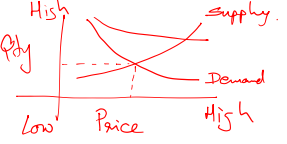
Firm Linkages

- **Supply Chain Innovation:** Nike's partnerships with manufacturers allow it to implement sustainable practices (e.g., recycled materials, reduced water usage).
- **Retail Linkages:** Nike's direct-to-consumer strategy, via its Nike stores and online platform, provides control over brand experience and product availability.
- **Example: Nike's Sustainability Initiative:** Partnerships with suppliers to use recycled materials and reduce environmental impact.



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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 *R&D mktg.*
- 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

Perception is reality.

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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?

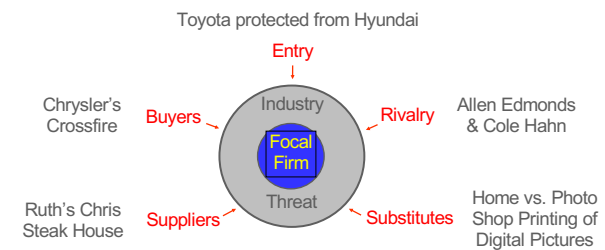
Is the firm **O**rganized to exploit it?

...if it is to create competitive advantage.

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The Value of Product Differentiation

Neutralizing Threats



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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. *CapEx*

Sources of costs of imitation

- historical uniqueness
- causal ambiguity
- social complexity

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Imitability of Product Differentiation

Product Features

Easy Duplication of Bases
 Timing
 Location
 Reputation

Usually Costly
 Links between functions
 Distribution Channels
 Service and Support

May be Costly
 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
- 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

<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

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

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STP.

Cost Leadership and Product Differentiation

Can a firm pursue both simultaneously?

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

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