

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

- CVP - customer value Proposition*
- Generate economic value by offering a product that customers prefer over competitors' product
Value
 - 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
- features quality*
Service
After sales

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Improves competitive positioning

- Apple Harley*
- 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 *new, clean*
- **Product Complexity**—multiple functions on a watch *100 ciked. - man. 3 ciked. - after multiple. - night.*
- **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 *South West Airlines. low cost. Samsung Apple. Standard Automation. loyalty.*
- **Consumer Marketing**—creating brand loyalty to a soap through image advertising *CSR ESG. 'On time'*
- **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 *videocam Sony PlayStation TV smartphones.*
- **Linkages with other Firms**—a sporting goods store sponsors a benefit race by donating running shoes and receives free radio advertising in return *Indigo - Airbus. "Power by hour"*
- **Product Mix**—a furniture store begins to sell home gym equipment, computers, and lawn mowers *Apple Store.*
- **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 → R&D → Service. *40 year quality*
- There is a risk of creating differences that customers do not value
 - Customers might become price sensitive and choose on price rather than uniqueness *Pandemic*
 - It might involve differentiation on dimensions that become less important to customers over time *type writer & faster.*
 - Customers may no longer need the differentiation factor *PC → correct*
- 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 *premium*
- Too much differentiation *cost high*
- Too high a price premium
- Differentiation that is easily imitated
- Diffusion of brand identification through product-line extensions *price ↓*
- Perceptions of differentiation may vary between buyers and sellers *offer sales.*

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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

Sevo

Fragmented Industry *likes*

Branding: commodity — differentiated product *Castrol!*

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 *Sony*

Refining product or adding services *Gaming*

Example: Ford's emphasis on service

Declining Industry *elderly, fitness*

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 <ul style="list-style-type: none"> spinners surf clothing 	Social Causes <ul style="list-style-type: none"> themed credit cards animal safe clothing
Government Policy <ul style="list-style-type: none"> Toyota Prius airport x-ray machines 	Economic Conditions <ul style="list-style-type: none"> 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

VW 300km service center 5

- 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

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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 *R&D.*
 - Corporate reputation for quality or technology *Brand.*
 - Strong cooperation from channels *network.*
- Patents.*

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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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3M
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

RBV

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Cost Leadership and Product Differentiation

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="color: red;">Example: Rolex</p>	<p style="text-align: center;"><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 style="color: red;">Example: Toyota</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

Customer Survey

Value Proposition

High

Low

High

Low

Cost

VRIO

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