The three marketing strategies, cost leadership, differentiation and focus, having so far been misrepresented, are given more precise meaning.

Competitive Marketing Strategy: Porter Revisited

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Introduction

In 1980 Michael Porter's *Competitive Strategy: Techniques for Analysing Industries and Competitors* was published[1]. The result of research on industrial economics Porter examined why certain industries had higher average profit levels than others and why certain firms within each industry earned profits above that industry average. He developed a theory of competitive pressure which determined the profitability of firms in an industry and he categorised the activities of firms who earned above-average profits in their respective industries as following three generic stratgies. Porter formulated a piece of marketing theory, his analysis of industry structure was certainly economic work, but its outcome — competitive strategy — is theory which describes marketing decisions, a fact which was quickly appreciated by marketing academics and practitioners worldwide.

It appears, however, that those academics and practitioners made no real attempt to apply critique and integrate Porter's work into the existing framework of marketing theory until relatively recently[2]. Porter was not a marketer, nor did he ever claim to be. Unfortunately marketing and management academics took Porter's theory merely as it was and placed it into the accepted body of marketing theory. Not surprisingly confusion exists amongst marketing texts and academics as to the precise definitions of the three generic competitive strategies and their implications for marketing decision making. This article reformulates these definitions from a marketing point of view in the light of Porter's original assertion that competitive strategy depends on, and has an effect on, market structure.

Porter's Competitive Strategies

Porter described competitive strategies as "taking offensive or defensive actions to create a defendable position in an industry, to cope successfully with the five competitive forces and thereby yield a superior return on investment for the firm"[1]. His research concluded that "there are three potentially successful generic strategic approaches to outperforming other firms in an industry:

(1) overall cost leadership

(2) differentiation

(3) focus."

The following discussion of the definitions of each strategy considers their fit within the framework of modern marketing theory, so that they are true to Porter's original findings; that "each generic strategy is a fundamentally different approach to creating and sustaining a competitive advantage"[3] (see Figure 1).

The discussion notes that differences between the strategies of *differentiation, low cost* and *focus* have been poorly presented and occasionally misrepresented in marketing and strategic management texts. In addition, Porter made several errors in logic with his definition of the three strategies.

Figure 1. *Three Generic Strategies*

		Competitive advantage	
		Lower cost	Differentiation
Competitive scope	Broad target	1. Cost leadership	2. Differentiation
	Narrow Target	3A. Cost focus	3B. Differentiation focus

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Differentiation Strategy: Surely it is More than Just Being Different?

The concepts behind the strategy of *differentiation* have always appeared to sit at the very heart of modern marketing theory and practice. The rise in interest in marketing this century came as mass marketing practices were gradually becoming ineffectual. Markets were becoming increasingly competitive and consumers better informed; suppliers needed a strategic response to the fact that buyers were becoming more skilled and choosy.

Porter wrote "In a differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers"[3]. Differentiation can be achieved through a whole host of features such as better quality, lower price (or higher price for that matter), customer service, reputation, greater awareness, greater availability. The marketing challenge is to identify different features which will provide meaningful benefit to consumers (such that a competitive advantage will be gained). The benefit must be one which the company is capable of delivering; one that will be difficult for a competitor to copy or better (i.e. it should be a sustainable advantage) and hopefully one for which customers will pay a sufficient premium (enough to cover any increased costs incurred in deliverying this added benefit.

Differentiation has been interpreted by marketing and strategic management texts as "making the product appear different", ensuring that the offering is perceived by the customer, as unique in some respect. The inadequacy of this definition is apparent, in that logically any new offering must be different in some way for customers to buy it.

Low Cost Strategy: Is it Low Price?

Porter stressed that this strategy should be adopted only if a firm possesses, or has the ability to gain, the lowest costs of production within an industry. Hence the effective adoption of this strategy is available only to one firm in an industry at one time. By achieving a marketing mix (including price) with some *proximity* to the offerings of other firms this producer will enjoy higher than average profits through its higher margin. A low cost position therefore does not automatically encapsulate the tactic of lowest price and it is hardly the primary aim of this strategy; although during a price war the low cost producer starts from an enviable position which may be exploited.

Porter's original definition of proximity has been ignored by many marketing writers who have associated the *low cost* strategy with an attempt to differentiate on price:

> The primary focus of the cost leadership strategy is to compete on price as the major marketing tool[4].

> The low cost company is in the best position to compete on the basis of *price*, to defend against *price* war conditions, to use the appeal of lower *price*... and to earn above-average profits where *price* competition thrives[5].

> Overall Cost Leadership: here a company works hard to achieve the lowest costs of production and distribution so that it can price lower than its competitors[6].

> Cost leadership emphasizes producing standardized products at very low per unit costs for many buyers who are price-sensitive[7].

There is either confusion over the terms cost and price, or a general failure to appreciate the concept of the whole marketing mix, by implying that using price to differentiate is different from using any other feature in any other part of the mix. Most markets have a whole host of different price, quality and volume offerings (to choose just three features). Having a lower price with the same quality and volume as other firms is simply one way of differentiating your offering. Each element of the mix offers a potential route to differentiating a firm's offering to the marketplace; which is different from any other feature. The lowest cost producer merely has the exclusive ability to go to a lower price than all other competitors and it is worth noting that it may have to go substantially below the price of a firm which is effectively implementing a differentiation strategy, possibly to the point of losses. Therefore being the lowest cost producer does not necessarily translate to a superior ability to differentiate.

> A cost leader ... cannot ignore the bases of differentiation. If its product is not perceived as comparable or acceptable by buyers, a cost leader will be forced to discount prices well below competitors' to gain sales. This may nullify the benefits of its favourable cost position[3].

If the primary focus of *low cost* strategy is simply to have the lowest price there is no marketing argument to consider differentiation and lost cost as different strategies. In Porter's defence he did not actually write that the aim of low cost was lowest price — he said that the essential aim of a firm following a low cost strategy is not to differentiate through low price, but to achieve a price as high as competitors, whilst retaining lower costs of production.

A True Cost Advantage is not Gained from Differentiating "Downwards"

Here it is worthwhile to distinguish between a true cost advantage and one which is simply derived from delivering fewer benefits. A true cost advantage can derive from only two sources, either having access to cheaper inputs (including access to patents and expertise) or being more efficient (having higher process quality)[8]. Savings in cost through cutting back on the amount of service or features given to the market does not give a true cost advantage; it is an avenue available to all firms. For example, in the retail grocery industry a number of firms have cost advantages through their lower staff and service levels, making shoppers pack their own purchases, etc. To assume these firms have a low cost advantage and are

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using it to implement a low cost strategy would be incorrect. Their provision of less service forces them to give customers a compensation drop in prices (or at least a perceived drop) and it enables them to differentiate and gain a part of the market (note: this usually goes beyond just the price-conscious segment). Their strategy is obviously one of differentiation; focus can be ruled out as it seems that targeting the purely price-conscious segment does not appear to be viable as even these low price supermarkets still stock luxury items and high price brands which are supposedly not bought by this segment, and a wide cross-section of the population shop at such retailers. With virtually the same core costs of other players in the industry they have decided to differentiate downwards as opposed to upwards. Instead of building in extra benefit and hoping it translates to customers being willing to pay a premium they have cut benefits in order to cut price (to differentiate themselves). They hope that in order to retain customers they will not have to drop price further than the cost savings they make.

Is Low Cost a Strategy?

When Porter wrote that firms following a low cost strategy could not ignore the bases of differentiation, he meant that, in order to achieve proximity in price, the low cost firm has to be aware at all times of all elements of the marketing mix and the value the market places on the benefits they deliver. A firm implementing a low cost strategy usually maintains a much greater degree of inward orientation (to control costs and productivity levels) but still cannot ignore the marketplace and its segments, and the differences between the benefits valued by the marketplace (the bases of differentiation).

Can low cost be considered a separate marketing strategy? Speed[2] argues that there is no reason to consider low cost (as Porter defines it) as a separate strategy. This line of thought maintains that having a cost advantage is merely a facilitator to differentiate, usually on price. He notes that a low cost advantage "does not lead to any increased benefits to the consumer unless costs lead to lower prices". Porter's definition of low cost is quite simply not a strategy. Porter's research sought to identify firms which earned profits higher than the industry average. The lowest cost producer was naturally of particular interest. He identified an operational circumstance which tended to allow for above-average profits.

A New Definition of Low Cost Strategy

There is an argument for a new definition of a low cost strategy where there is an essential difference between the marketplace activities of a firm following a low cost strategy and a firm following differentiation. A new definition states that the low cost firm aims for the entire market and does not avoid tactics which push the industry down the commodity slide. The thought of being precluded from any part of the market for a firm following low cost is quite foreign. The aim is to exploit in every segment the extra marketing muscle given by a cost advantage. Most importantly, the low cost firm fights to remove bases for differentiation, to reduce the differences between each segment; whereas firms following differentiation aim to build or at least preserve such bases.

The vital difference then between the firm which follows low cost and those who follow differentiation and focus is the way the firm approaches the market. Whether a firm follows low cost, differentiation or focus strategies it still has to offer something unique to the customer in order to gain a sale. The difference between the three competitive strategies is not just in the way they differentiate; it has to do with how they try to influence the nature of the market. The low cost firm has objectives of proximity, maximum marketshare and reducing the bases for differentiation. One way of achieving this removal of bases for differentiation is to lift the standard of proximity for the industry, thereby making a differentiation strategy very difficult to implement.

Lifting the Market's Proximity Level

Proximity or parity was defined by Porter as achieving "an identical product offering to competitors, or a different combination of product attributes that is equally preferred by buyers"[9]. A more useful definition is that proximity is the minimum necessary level and mix of benefits which a firm must provide if it is to compete right across the market. Hence the proximity level in effect defines the broad marketplace; for example, different proximity levels distinguish the air travel market from the taxi market.

The proximity level tends to rise over time and can sometimes rise very quickly with a price or advertising war or when there is a major technological advance. Eventually the rise in proximity can lead to a commodity market, as has been the case in the domestic salt market. The proximity level has become high enough to satisfy most comsumers (who ask for free-flowing qualities, availability, convenient packaging, iodine and low price) leaving little room for differentiation. Hence each country tends to have one main marketer of domestic salt with a number of smaller firms confined to distinct segments (supplying rock salt, sea salt, etc.).

Low Cost Strategy and the Influence on Market Structure

The strategy of low cost would appear to be of little consequence in most industries, since only one firm at most can achieve the lowest costs of production necessary to implement it. Even if there is a firm which is sure of its cost advantage, it may still decide not to follow a low cost strategy but follow a differentiation strategy instead (or even focus, though a firm with a true cost advantage would be unlikely to want deliberately to limit potential market share).

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What is really significant about this strategy is the fact that low cost behaviour (e.g. copy-cat marketing, advertising wars, price cutting) is observed in many businesses (particularly smaller firms) which are unlikely to have a cost advantage. It makes no sense for such firms to concentrate on proximity. Without a cost advantage, attempts to reduce or remove potential bases for differentiation (through lifting the standard of the industry's proximity level) are not in the firm's interests. Attempting to reduce the bases for differentiation can be in the interests of only one firm, the one with lowest costs, since this firm will never lose its ability to outperform others under these conditions.

It can be inferred that industry profitability is influenced by the number and ratio of firms following the low cost strategy, effectively attempting to reduce the industry to a commodity market. Interestingly, this situation is not undesirable for the least cost producer, so such a firm need not discourage other firms from attempting to implement a low cost strategy. This contradicts Porter's assertion that the low cost firm must discourage actively or pre-empt other firms from adopting this strategy.

> Unless one firm can gain a cost lead and "persuade" others to abandon their strategies, the consequences for profitability (and long-run industry structure) can be disastrous, as they have been in the petrochemical industries. Thus cost leadership is a strategy particularly dependent on pre-emption[3].

Focus Strategy: Is it Just Super Differentiation?

Focus, the third generic competitive strategy identified by Porter has been defined essentially according to competitive scope. A firm following a focus strategy "selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others"[3].

The concept of segmentation has become a vital, analytical tool for effective marketing and is included in all basic marketing texts. Increasingly the concept of target or niche marketing has been the basis of marketing strategy and tactics development in recent years. Focus is dependent on effective use of this technique.

What the actual difference is between this approach and a differentiation approach seems to have quite naturally confused marketing writers. Surely the successful outcome of using one feature (or more) to differentiate a firm's offering will be to capture one part of the market? "Since differentiation usually implies that the product has a particular appeal, then the maximum market share is limited"[2].

So what is the difference between the strategies of focus and differentiation? Are they both simply target marketing? Is it essentially a matter of degree, of how small is that part of the market (target segment) to which you appeal? Uncertainty over these issues has resulted in many marketing writers taking the approach of all but ignoring this third strategy.

Some of the blame must also lie with Porter's use of a matrix (see Figure 1) to illustrate the three strategies which inherently suggests focus is not really a strategy in its own right. The matrix reduces the definition of focus to a tactic of a firm merely working in one segment, because a decision to adopt low cost or differentiation still needs to be made after deciding upon a focus strategy.

New Definitions of Focus Strategy and Differentiation Strategy

Can focus be redefined or expressed in a different manner so that it can be considered a strategy in its own right? Porter gave a clue when he discussed the difference between differentiation and what he referred to as differentiation-focus[3].

Focus does involve differentiating but Porter suggested that a differentiation strategy used widely valued attributes only as differentiating factors, whereas focus uses segment-specific attributes. When examined along with the concept of proximity, quite robust definitions are suggested. Differentiation involves gaining proximity to other producers in the provision of most benefits desired by the market and then involves differentiating through exceeding them in the provision of at least one benefit. A superiority in providing this benefit which will hopefully translate to consumers being willing to pay a premium. In many cases to implement differentiation successfully a firm needs to capture the position associated with providing this benefit, in all customers minds, e.g. Volvo owns the position of providing safety.

With this new definition a clear distinction can be made between the strategic aims and activities of firms following differentiation and firms following focus. Focus does not require outperforming all other competitors in the provision of one (or few) benefit(s); it simply requires getting the balance of benefits a firm offers to match perfectly (or meaningfully better than any other offering) the demands of the customers in one segment. Porter quite rightly pointed out the difficulties of one firm attempting to apply the strategy of focus to more than one segment because of the internal confusion and lack of direction this has the potential to cause. Some firms have succeeded, although usually through using separate business units, which can really be considered as separate firms, to handle each different segment. A firm following a focus strategy is concerned with its own one segment and is not concerned with gaining full proximity.

Heinz launched a reduced calorie soup range in Australia in the mid-1970s, adopting incorrectly, a differentiation

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strategy. They were conscious of gaining proximity and did so by marketing a full-flavoured range (they have the technology to remove calories without removing the flavour) of tinned, condensed soups under the Heinz brand. The soups were positioned in the usual soup section of the supermarket and featured traditional varieties (e.g. beef broth) and standard Heinz advertising (at the time using rotund English actor Robert Morley). Heinz's market research indicated that a substantial proportion of the population were concerned about maintaining or losing weight; having fewer calories was, it seemed, a base for differentiation. Heinz gained proximity and excelled in the provision of this feature. The soup range failed in the marketplace, while Trim (by a Heinz rival) continued to earn profits. Trim was a dried sachet packaged soup, perceived as slightly watery by consumers, and sold only in the diet section of the supermarket. In the Australian soup market in the mid-1970s the diet segment was a distinct segment where few aspects of proximity were relevant; Heinz failed to appreciate the true nature of the market — to their detriment.

Gaining proximity is a necessary prerequisite to gaining a large market share in any market (if it were not, the definition of what constituted that market would obviously be in error). Full proximity is therefore necessary for both low cost and differentiation strategies but not for focus. So what must be recognised is that the successful implementation of focus depends on the nature of the market (as do all the competitive strategies). A clear segment must exist which can be catered for without having to gain full proximity.

A firm implementing a focus strategy is vulnerable to changes in the market and consumer demands which may mean a segment is no longer viable or that the differences between segments disappear. The chosen segment therefore must be well defined, which means it will usually be small, although not necessarily so. Speed[2] presents the interesting idea of two versions of focus, one where a distinct segment is targeted (target marketing) and another where the segment chosen is so small it can only accommodate one firm (niche marketing).

The difference between a firm following a focus strategy and one following a differentiation strategy still can appear fine at times. Both can appear to be targeting the needs of a specific segment but the orientation of firms following these strategies should differ. The effect of differentiation can be to capture one segment (the segment which values highly the particular benefit they excel in providing); this, how--ever, reflects clumsy execution of a differentiation strategy.

The Competitive Advantage of Focus Strategy Lies in Understanding One Segment's Needs

Many firms are tempted to go beyond their chosen segment, particularly if they have been successful within it; it is a difficult decision to take deliberately, to limit potential sales volume. Porter gives the example of how Laker Airways focused on the price-sensitive segment (always a difficult segment to cater for at a profit!) and was exceptionally successful with its no-frills operation in the North Atlantic market. Over time the temptation to tap into other segments became too great and Laker began adding frills and new routes; it blurred its image and no longer served its segment so well, and eventually went bankrupt.

Porter[1] actually wrote that a firm following a focus strategy could focus on a market segment or "a segment of the product line". Having a narrow product line is merely a feature of the marketing mix used to target a small part of the total market; the firm is still operating in one market segment. To concentrate on the narrow product line rather than the narrow part of the market to which it appeals would be to have a production orientation. Always dangerous and myopic, but surely a fatal mistake for a firm following a focus strategy where much of its strategic competitive advantage lies in understanding the segment's needs.

Focus can be powerful competitive strategy but it involves a deliberate sacrifice of potential sales volume. It is a particularly useful strategy for firms with limited resources; they often cannot cope with a large market and, more importantly, they do not have the ability to reach proximity (let alone go further to excel in providing one benefit which is meaningful to a large part of the market). A well implemented focus strategy, though, can provide a premium in profit margin which covers the higher costs of catering so well to a segment.

A Fourth Strategy

Kotler *et al.*[6] quite rightly pointed out that Porter actually developed a fourth competitive strategy, which is unlike the others in that it is a strategy for failure. Porter[1] described this as *stuck-in-the-middle*, where a firm attempts to implement more than one strategy and therefore does not achieve any of the competitive advantages since "each generic strategy is a fundamentally different approach to creating and sustaining a competitive advantage". There have been a number of critiques of this statement (e.g. [10]).

Porter himself has softened his stance to say that low cost and differentiation are merely "usually inconsistent, because differentiation is usually costly"[3]. Differentiation and low cost are not incompatible under Porter's original definitions, which made no distinction between having lowest costs of production and implementing a low cost strategy. (For an example of how this concept has been embraced see[11, p. 113].) Under the new definitions in this article these two strategies are clearly at odds.

Peter Wright and A. Parsina[7] cite several examples of corporations implementing both focus and differentiation strategies. Since these strategies are not at odds in that

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they both respect the bases for differentiation within the industry, this is feasible.However, there is nothing in this argument which refutes Porter's assertion that separate, autonomous management is required for divisions implementing different strategies.

Summary: Each Strategy Reacts to, and Tries to Influence, Market Structure in a Different Way

This article has examined Porter's competitive strategies in a marketing context, an exercise which has produced new definitions of these strategies, definitions in which the differences between the three competitive strategies do not depend purely on scope of activity or whether price is used to differentiate. Instead it is argued that competitive strategy concerns the way firms work within, and try to influence, the nature of the market.

At the base of competitive marketing strategy is the concept of market nature or market structure. Market nature describes how much a market differs from a commodity market and the degree of fragmentation in the market. Market nature is influenced to a significant degree by the strategies adopted by the firms within the market. The activities of firms influence market nature through determining the market's level of proximity. In a broad sense a market can be defined by its core benefit (e.g. communication, nutrition, power/energy), for practical purposes. However, markets or industries are defined by the current bundle of benefits which a firm must deliver in order to be considered a direct, industry-wide competitor. This bundle of benefits and the level to which they must be supplied are the market's proximity level (similar to but not to be confused with "key success factors", which are commonly used to describe factors within a firm necessary in order to gain proximity, rather than describing the level of performance in the marketplace).

If a firm reaches this level of proximity and then exceeds it in the provision of one (or few) widely appreciated benefit(s) (e.g. quality, number of features, price, etc.), then it is implementing a differentiation strategy. The aim is to gain a sustainable position in the market and earn a premium for this extra performance, hopefully enough to offset any additional costs incurred in offering this benefit.

Differentiation strategy depends on viable bases for differentiation existing. A firm implementing this strategy encourages the development of such bases. Differentiating firms in an industry will do best if they recognise one another's respective positions and therefore do not embark on "copy-cat" behaviour. Firms following a low cost strategy take the exact opposite approach.

A firm following a low cost strategy like a differentiator attempts to gain maximum market share. Unlike a differentiator, it attempts to reduce or remove possible bases for differentiation, essentially through lifting the level of proximity which firms must first gain in order to differentiate. In effect the low cost firm undertakes activity which will help push the industry down the commodity curve. Logically, a firm should consider attempting this only if it has the lowest costs of production, but lowest costs of production do not force a firm to follow a low cost strategy. The term low cost strategy is potentially misleading; a better name perhaps is proximity or commodity strategy.

If a firm does not have the ability to gain proximity it can follow a focus strategy. A firm following a focus strategy attempts to provide the right balance of benefits (the right marketing mix) to a particular segment of the market in order to match their needs and wants perfectly (or meaningfully better than other competitors. A firm following focus is not concerned with gaining full proximity (see Figure 2).

Focus strategy depends on a firm finding viable, distinct segments which do not require proximity. A firm following this strategy attempts to encourage the formation and continued existence of such segments.

The competitive advantage of focus lies in the superior knowledge of one segment's needs and wants.

Figure 2. *Risks of the Generic Strategies*

Risks of low cost	Risks of differentiation	Risks of focus
Cost leadership is not sustained	Ability to gain proximity, then excel in the provision of one benefit, is not sustained	Understanding of the segment's unique characteristics is lost
Level of proximity drops. Bases for differentiation become very pronounced, allowing differentiators and focusers to increase share.	Level of proximity rises, Bases for differentiation become less important to consumers.	Target segment becomes unattractive. Target segment's differences from other segments disappear.
Market becomes fragmented. Proximity level is very low.	Proximity is very low. Market becomes fragmented to the point that focusers steal the whole market, segment by segment.	New focusers sub-segment the market.

Source: [3, p. 21]

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Porter's work on competitive strategy was exciting, although certainly not complete. It was new marketing theory but in its original form displayed a number of errors which become evident when examined in a marketing context. That this was not done in a decade of marketing teaching and practice is a sad reflection on the unscholarly haste in which apparently useful theories were placed into the body of marketing theory (and textbooks).

This article, whilst critical of Porter's definitions of generic competitive strategy, does attempt to emphasise Porter's great contribution to marketing strategy — the concept of market nature and the realisation that this nature is influenced by the strategies adopted by firms operating within the market. This theory represents a landmark in the development of competitive marketing strategy and has profound implications for the traditional works in this area. Many other marketing writers' competitive strategies appear to be highly simplistic, a collection of tactics without a strategic framework. Competitive marketing tactics and strategy now will have to be rethought in the light of the concepts of market nature and proximity, and the evolutionary (sometimes revolutionary) process of change in market nature.

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