

## Agenda for today

### Generic Business Strategies

- What are business-level strategies?
- How can firms obtain a competitive advantage from internal & external sources?
- How can firms focus, and what are its benefits?
- What is Strategic Positioning?
- What is ambidexterity?

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## The Strategic Management Process

### Difference between Business and Corporate Strategy

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## Business Level Strategies

### Generic Business Level Strategies

**Cost Leadership:**

- generate economic value by having lower costs than competitors

*Example: Wal-Mart*

**Differentiation:**

- generate economic value by offering a product that customers prefer over competitors' product

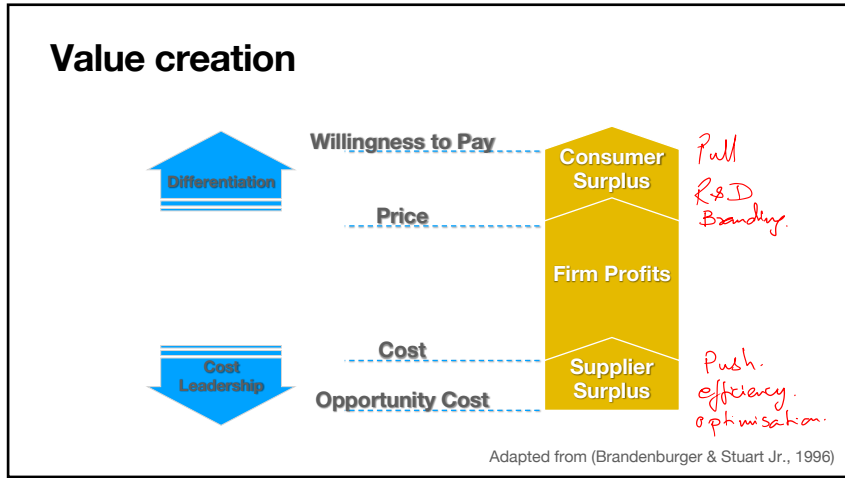
*Example: Harley-Davidson*

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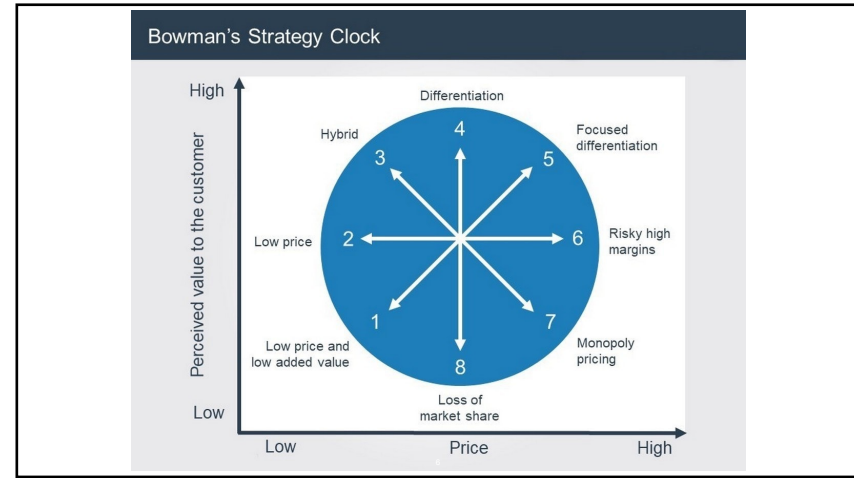
## Porter's Generic Strategies

### Cost Leadership & Differentiation

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- ### Porters Generic Strategies
- #### Summary
- Cost Leadership**
    - Economies of Scale
    - Diseconomies of Scale
    - Learning Curve Economies
    - Low-cost access to factors of production
    - Technology independent of Scale
    - Policy Choices
  - Differentiation**
    - Product Attributes
    - Firm - Customer Relationships
    - Firm Linkages
- Handwritten red notes: 'Structure Control.' with a bracket next to the Cost Leadership list, and a bracket next to the Differentiation list.

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- ### Benefits of cost leadership
- Enjoy higher than average profits
  - Engage in price war
  - Eliminate rivals
  - Defend market share
  - Increase market share
  - Build barriers to the entry of newcomers to the market
  - Weaken the threat of substitutes
  - Enter new markets
- Handwritten red note: 'IRCTC' next to 'Weaken the threat of substitutes'.

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### Five forces and cost leadership

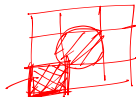
*S → C → P*  
*Working Capital*

The five forces	The cost leader is
Entry barriers ↑	Able to cut prices to discourage potential entrants to the market
Buyer power ↓	Able to offer a competitive price to buyers with power
Supplier power ↓	Protected from a powerful buyer by low costs
Threat of substitution ↓	Able to make use of low price as defence against substitutes
Rivalry ↓	Is better able to compete on price

*AC2*  
*co-opetition*

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### Risks of cost leadership



- Vulnerability to even lower cost operators *Ola → Gigafactory. Batteries*
- As technology improves, a competitor may be able to leapfrog the production capabilities, thus eliminating the competitive advantage
- It could lead to a damaging price wars *market share*
- There might be difficulty in sustaining cost leadership in the long run
- A firm following a focus strategy might be able to achieve even lower cost within their segment

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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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### The five forces and differentiation

*S - C - P*

Five forces	A firm pursuing a differentiation strategy...
Entry barriers ↑	Benefits from customer <u>loyalty</u> which discourages potential entrants
Buyer power ↓	Enjoys some protection since large buyers have less power to negotiate because of the absence of close alternatives
Supplier power ↔ ↓	Is better able to pass on supplier price increases to customers
Threat of substitution ↓	Is protected from the threat of substitutes by customer <u>loyalty</u> <i>switching cost ↑</i>
Rivalry ↓	Benefits from brand <u>loyalty</u> to keep customers from rivals

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### Risks of differentiation strategy

- There are difficulties of sustaining differentiation *R&D*
- Differentiation involves higher costs *FMCG, Shelf Space, Signals*
- There is a risk of creating differences that customers do not value
- Customers might become price sensitive and choose on price rather than uniqueness *Economic Disruption*
- It might involve differentiation on dimensions that become less important to customers over time
- Customers may no longer need the differentiation factor *Maggi Instant noodles*
- 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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HOW IS COMPETITIVE ADVANTAGE ESTABLISHED?

### The Emergence of Competitive Advantage

```

    graph TD
      A[How does competitive advantage emerge?] --> B[External sources of change e.g.:  
• Changing customer demand  
• Changing prices  
• Technological change]
      A --> C[Internal sources of change]
      B --> D[Resource heterogeneity among firms means differential impact]
      B --> E[Some firms faster and more effective in exploiting change]
      C --> F[Some firms have greater creative and innovative capability]
    
```

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HOW IS COMPETITIVE ADVANTAGE ESTABLISHED?

### Competitive Advantage from Externally-Generated Change: Dynamic Capabilities

- ❑ Dynamic capability is a “firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments”
- ❑ Dynamic capabilities typically viewed as “higher order” capabilities that orchestrate change among lower-level “ordinary” or “operational” capabilities.
- ❑ There are three types of dynamic capability:
  - (1) sensing and shaping of opportunities and threats
  - (2) seizing opportunities
  - (3) maintaining competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the enterprise’s intangible and tangible assets

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HOW IS COMPETITIVE ADVANTAGE ESTABLISHED?

### Competitive Advantage from Internally-Generated Change: Strategic Innovation

STRATEGIC INNOVATION: creating customer value from new products, experiences, or modes of product delivery

Innovatory strategies may involve:

- Creating whole new markets/industries
  - Creating new customer segments
  - Blue Ocean Strategy
- New sources of competitive advantage
  - Reconfiguring the value chain
  - Reconceptualizing the product
  - New performance combinations
  - Business Model Innovation

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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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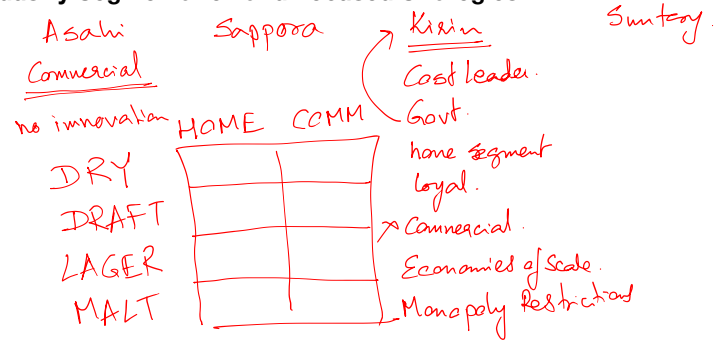
## Requirements of a focus strategy

- 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 '30 to '60 '70

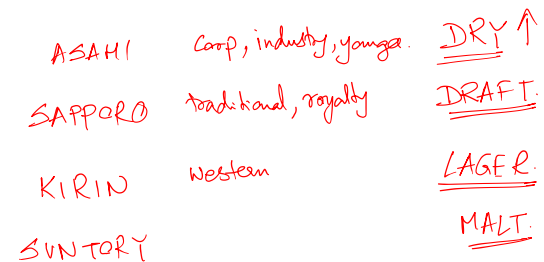
### Industry Segmentation and Focused Strategies



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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 *DRY* *LAGER* ↓
- 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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### 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

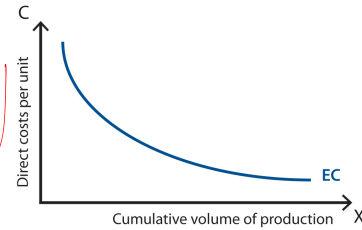
- Deliver greater value to customers  
*(higher average unit price)*
- Create comparable value at a lower cost  
*(lower average unit cost)*
- Performing different activities than rivals

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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 *focus*
  - **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)
- 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

- Recap of Generic Strategies
  - Benefits
  - Impact on Industry 5 Forces
  - Shortcomings
- Focus Strategies
- Strategy as Positioning
- Ambidexterity

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