

Agenda for today

Generic Business Strategies

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

1

The Strategic Management Process

Difference between Business and Corporate Strategy

2

Business Level Strategies

Generic Business Level Strategies

Cost Leadership:

- generate economic value by having lower costs than competitors
- Example: Wal-Mart, D-Mart*

Differentiation:

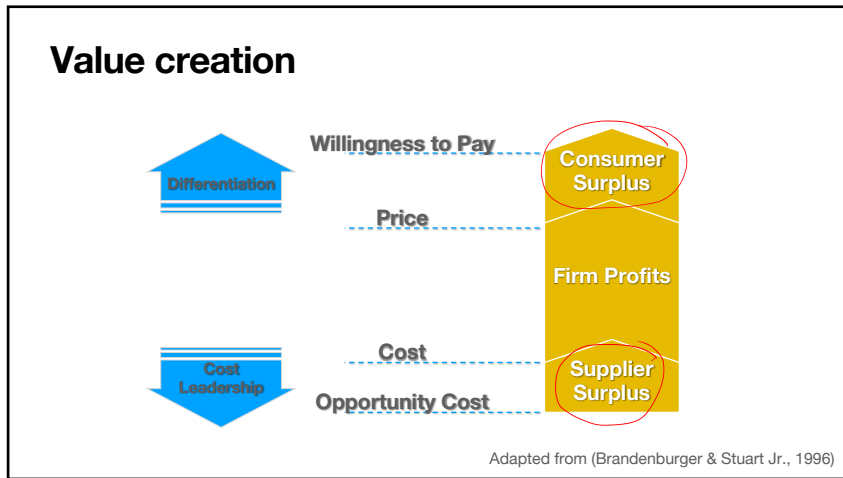
- generate economic value by offering a product that customers prefer over competitors' product
- Example: Harley-Davidson*

3

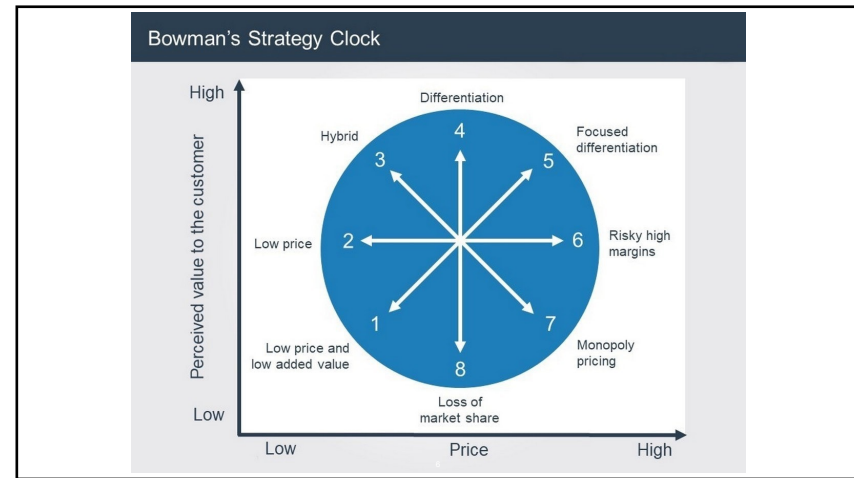
Porter's Generic Strategies

Cost Leadership & Differentiation

4



5



6

- ### Porters Generic Strategies
- #### Summary
- **Cost Leadership**
 1. Economies of Scale
 2. Diseconomies of Scale *X*
 3. Learning Curve Economies
 4. Low-cost access to factors of production *Land Labor Capital Enter.*
 5. Technology independent of Scale
 6. Policy Choices
 - **Differentiation**
 1. Product Attributes
 2. Firm - Customer Relationships
 3. Firm Linkages

7

- ### 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

8

Five forces and cost leadership

| 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 |

9

Risks of cost leadership

- Vulnerability to even lower cost operators
- 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
- 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

10

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

11

The five forces and differentiation

| Five forces | A firm pursuing a differentiation strategy... |
|------------------------|---|
| Entry barriers | Benefits from customer loyalty 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 loyalty |
| Rivalry | Benefits from brand loyalty to keep customers from rivals |

12

Risks of differentiation strategy

- 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

13

HOW IS COMPETITIVE ADVANTAGE ESTABLISHED?

The Emergence of Competitive Advantage

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    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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14

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

15

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

Kishin
Asahi

16

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

21

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

22

Japanese Beer Industry

Industry Segmentation and Focused Strategies

WW II
 Del Nippon 70% Lager → Fermented.
 Kirin 25% Draft → light
 USA → 10% Super Dry.
 Asahi 30% Commercial.
 Sapporo 30% → 20% Malt.
 Kirin 30% Home mkt. → 60%

23

23

Japanese Beer Industry

Industry Segmentation and Focused Strategies

Asahi: Office/Corporate Dry 10% to 20% → 54%
 Sapporo: Premium Culture. Material quality. Domestic Lager 30%
 Draft → 64%
 Kirin: Enter firm Lager 90%
 Suntory: All Malt 35%

24

24

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

25

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

26

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

27

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 |

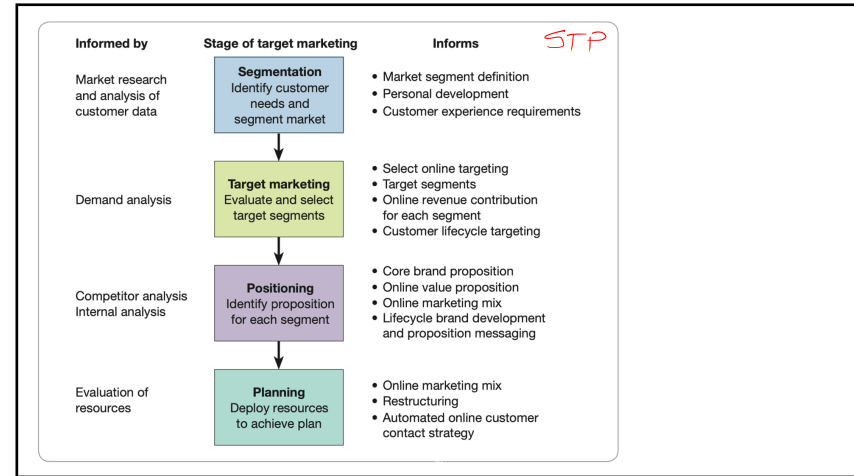
28

Problems associated with focus strategy

70% RE 350cc to 750cc.

- Limited opportunities for growth
- Sacrifice of economies of scale that would be available from a larger market
- The firm could outgrow the market
- Danger of decline in the chosen segment or niche
- A reputation for specialisation inhibits move into new sectors
- Risk of imitation
- Risk of changes in the target segment

29



30

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

31

Positioning

What a company must do

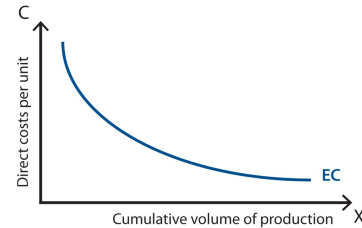
- Deliver greater value to customers
(higher average unit price)
- Create comparable value at a lower cost
(lower average unit cost)
- Performing different activities than rivals

32

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



33

33

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
 - **Access based positioning:** delivery channel
- **Marketing myopia:** companies fail to adapt and respond to constantly changing consumer tastes and demands

34

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

35

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

36

36

Ambidexterity
Cost leader *Differentiation*

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

37

Summary

Porters Generic Strategies

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

38

38