UNIT 179 – UPSC - Generic Competitive Strategies

Generic strategies developed by Porter explains how a company pursues competitive advantage across its chosen market scope. Competitive strategy relates to all the different numerous strategies that company implement in order to gain a competitive advantage, Retain existing market share, Capture new market share, Identify and access new market opportunities, Satisfy wants and needs, Provide superior value in a product or service, Position and differentiate the product, Optimize manipulation of the marketing mix and achieve its goals in the competitive market place. It is well established that Generic strategies can support the organization to cope with the competitive forces in the industry and perform better than other organization in the industry. Michael Porter categorized competitive strategies as cost leadership, differentiation, or market segmentation (Lynch, 2000).

Cost Leadership

Cost leadership is intended to achieve scale economies and utilizing them to produce high volume at a low price. Margins may be narrower, but large quantity, enabling high profits streams. Cost leadership means having the lowest per-unit (i.e., average) cost in the industry that is, lowest cost relative to competitors.

This could mean having lowest cost among some competitors where each firm enjoys pricing power and high profits.

Cost leadership is defined autonomously of market structure.

Cost leadership is a defensible strategy because it protects the firm against powerful buyers. Buyers can drive price down only to the level of the next most efficient producer.

It defends against powerful suppliers. Cost leadership provides flexibility to absorb an increase in input costs, while opponents may not have this flexibility.

The factors that lead to cost leadership also provide entry barriers in many instances. Economies of scale require potential rivals to enter the industry with substantial capacity to produce, and this means the cost of entry may be prohibitive to many potential rivals.

Differentiation Strategy

Differentiation is a strategy that creates a unique service or product offering, either through good branding or strong internal skills. This strategy offers unique tactics that is difficult to copy and is strongly related with an organization's brand. Differentiating the product offering of a firm means creating something that is observed industry wide as being exclusive. It is a means of creating company's own market to some extent.

There are several approaches to differentiation:

1. Different design
2. Brand image
3. Number of features
4. New technology

A differentiation strategy may mean differentiating along two or more of these dimensions. Differentiation is an invulnerable strategy for earning above average returns because:

1. It shields a firm from competitive rivalry by creating brand loyalty; it lowers the price elasticity of demand by making customers less sensitive to price changes in products.
2. Uniqueness quality of differentiation strategy creates barriers and reduces substitutes. This leads to higher profits, which reduces the need for a low-cost advantage.
3. Higher margins enable the firm to deal with powerful suppliers.
4. Differentiation also lessens buyer power since buyers now have fewer alternatives.

Market segmentation strategy has less scope. Both cost leadership and differentiation are comparatively broad in market scope and can embrace both strategic advantages on a smaller scale.

Porter cautions that companies who try to accomplish both cost leadership and differentiation may not succeed in competitive environment. He notes that specializing is the perfect strategic approach.

Focus Strategy

In a focus strategy, company concentrates only on a particular or a limited range of market segments. In this strategy, the firm focuses on a few target markets. It is also known as a niche strategy. It is anticipated that by focusing marketing efforts on one or two narrow market segments and altering marketing mix to these specialized markets, company can successfully meet the needs of that target market. It is suitable for small firms but can be used by any company. Focus strategy may be used to select targets that are less susceptible to substitutes or where a competition is weakest to earn above-average return on investment.

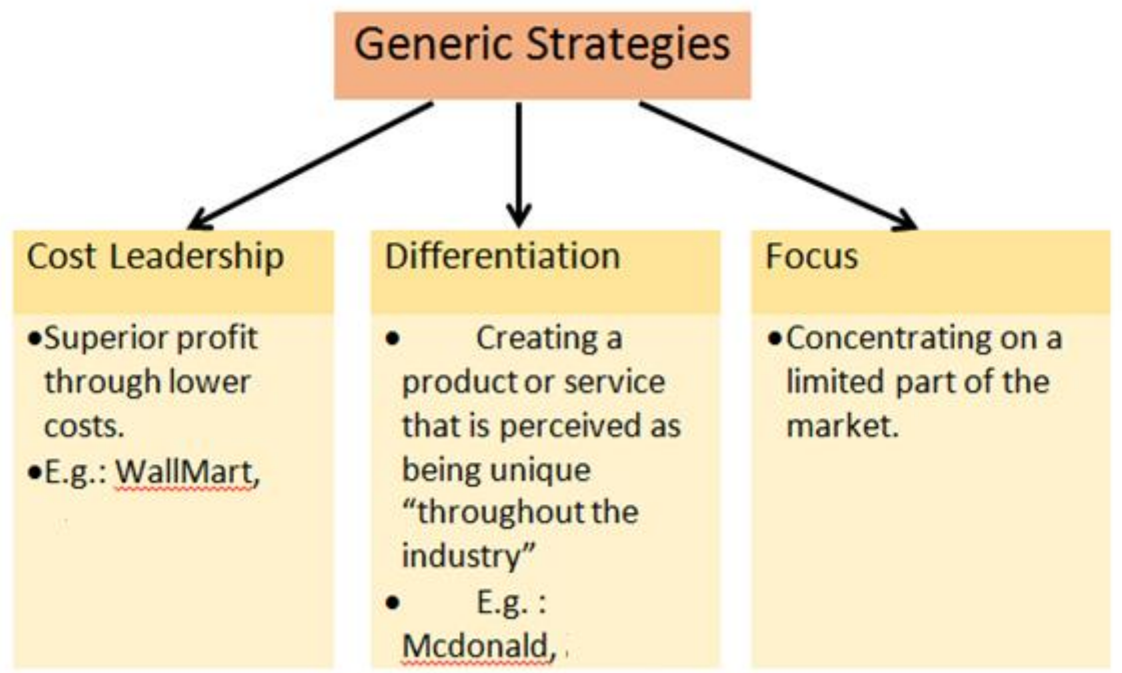
Any company try to gain a competitive advantage through effectiveness rather than efficiency. Focus strategy can be used by a company to gain either cost leadership or differentiation. Focus strategy can be segmented into two:

1. Cost Focus
2. Focus differentiation

Focus strategy has following advantages:

1. Better consumer satisfaction: By implementing the focus strategy, a firm focuses on specific target markets. These are ordinarily distinct groups that have specialized requirements. It is supposed that through focusing a company's marketing efforts towards a narrow market segment and also altering the marketing to the specialized market, the company will better can fulfil all the requirements of that specific market.
2. Benefits small businesses: The focus strategy is best suited for small businesses as they usually lack the resources for competing industry-wide. Additionally, the targeted approach is also useful to a small business since large companies usually neglect small niches.
3. Competitive advantage: A company who adopt the focus strategy naturally looks for the competitive advantage by brand marketing and product innovation, instead of efficiency. The targeted market segments are less open to substitutes and this allows for high return on the initial investment. This is especially observed where the organization has the capability of identifying the preferences of narrow market regions, enabling it to better meet them than its other competitors.

Generic Competitive Strategies



Characteristics of Generic Strategies: These strategies can be pursued by all companies regardless of whether they are manufacturing, service, or non-profit. Generic strategies can be pursued in different kinds of industry environments. It results from a company's consistent choices on product, market, and distinctive competencies.

Drawbacks of generic strategies:
The difficulties of each generic strategy are as under:

Risk of cost leadership: Positioning a firm as a low cost manufacturer or service provider places a severe problem on the firm. Cost leadership is susceptible to risks such as: Technological change that expunges past investments and outdates past learning. Risk of imitation by late entrants who have advantage of low cost learning. Lack of attention to the needs and preferences of customer due to unnecessary concerns for cost minimization. Unforeseen inflation in costs that decreases the firm's ability to counterbalance product differentiation through cost leadership.

Risk of differentiation: A differentiation strategy is defenceless to the following risks:

Increased cost differential between low cost producers and the differentiating firm will stimulate brand loyalty customers to switch brands. Thus, buyers would sacrifice some additional features and image for huge savings in cost.

Imitation might narrow down the perceived difference.

If a differentiating firm drops back excessively, a low cost firm may conquest the market of the differentiating firm.

Risk of focus: A focus strategy is susceptible to the following risks:

Increasing cost differentiated between huge competitors and the focus firm might offset the differentiation achieved through focus and the customers may switch towards firms that offer a broad range of products.

Perceived or actual differences between products and services might vanish.

Other firms might find submarkets within the target market of the focus firm and out focus the focuser.

It can be established in management literature that The Generic competitive strategies is beneficial when a company wants to gain an advantage over a competitor. If a company wants to 'win' the advantage over other businesses, it does so by winning sales and taking customers away from rivals. The main advantage using a Generic competitive strategies is to establish a method of doing business that will drive the company in a certain direction. Rather than simply upholding the status quo, a Generic competitive strategies gives a company a proposal to follow that will generate the structure of the company.

Creating a Generic competitive strategies, firms must follow some steps:

1. Create a Strengths, Weakness, Opportunities, Threats (SWOT) table for each of the three strategies. Once that is completed, it may be apparent that a strategy would not be appropriate. If that is the case, remove that strategy, and continue to the next step.

2. Secondly, firm must conduct an analysis of the industry the business is in. Finding out specifics about the business industry that can lead to an increased understanding of the market and how to best position the company.
3. Then compare the SWOT analysis to the business industry results. Select the most practical options from the SWOT analysis and compare to the business industry analysis.

To summarize, generic strategy matrix proposed by Porter highlights cost leadership, differentiation and focus as choices for firms, has dominated corporate competitive strategy. A cost leadership strategy is based upon a business organizing and managing its value adding activities so as to be the lowest cost producer of a product within an industry. A differentiation strategy is based upon attracting customers that a product is high quality in some way as compared to its competitors. Lastly, a focus strategy is aimed at a segment of the market for a product instead of the whole market.