**What is “Competitive Strategy”?**
- Consists of a company’s market initiatives and business approaches to:
  - Attract and please customers
  - Withstand competitive pressures
  - Strengthen market position
- Includes offensive and defensive moves to:
  - Counter actions of key rivals
  - Shift resources to improve long-term market position
  - Respond to prevailing market conditions
- Narrower in scope than business strategy

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**The Five Generic Competitive Strategies**

<table>
<thead>
<tr>
<th>Type of Advantage Sought</th>
<th>Lower Cost</th>
<th>Differentiation</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Broad</td>
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<tr>
<td></td>
<td>Overall</td>
<td>Strategy</td>
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<tr>
<td></td>
<td>Low-Cost</td>
<td>Provider</td>
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<tr>
<td></td>
<td>Broad</td>
<td>Strategy</td>
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<tr>
<td></td>
<td>Buyers</td>
<td>Strategy</td>
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<td>Narrow</td>
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<td>Buyer</td>
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<td>Segment</td>
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<td></td>
<td>or Niche</td>
<td>Strategy</td>
</tr>
</tbody>
</table>

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**Distinctive Features of the Five Generic Competitive Strategies**

**Low-Cost Leadership**

**Keys to Success**
- Make achievement of low-cost relative to rivals the theme of firm’s business strategy
- Find ways to drive costs out of business year-after-year

Low-cost leadership means low overall costs, not just low manufacturing or production costs!

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**Options: Achieving a Low-Cost Strategy**
- Open up a **sustainable cost advantage** over rivals, using lower-cost edge to **either**
  - Under-price rivals and reap market share gains

  ![Graph showing profit increase](image)

  or

  - Earn higher profit margin selling at going price

---

**Approaches to Securing a Cost Advantage**

**Approach 1**

Do a better job than rivals of performing value chain activities efficiently and cost effectively

**Approach 2**

Revamp value chain to bypass cost-producing activities that add little value from the buyer’s perspective
Approach 1: Controlling the Cost Drivers
- Capture scale economies; avoid scale diseconomies
- Capture learning and experience curve effects
- Manage costs of key resource inputs
- Consider linkages with other activities in value chain
- Find sharing opportunities with other business units
- Compare vertical integration vs. outsourcing
- Assess first-mover advantages vs. disadvantages
- Control percentage of capacity utilization
- Make prudent strategic choices related to operations

Approach 2: Revamping the Value Chain
- Abandon traditional business methods and shift to e-business technologies and use of Internet
- Use direct-to-end-user sales/marketing methods
- Simplify product design
- Offer basic, no-frills product/service
- Shift to a simpler, less capital-intensive, or more flexible technological process
- Find ways to bypass use of high-cost raw materials
- Relocate facilities closer to suppliers or customers
- Drop “something for everyone” approach and focus on a limited product/service
- Reengineer core business processes

Keys to Success in Achieving Low-Cost Leadership
- Scrutinize each cost-creating activity, identifying cost drivers
- Use knowledge about cost drivers to manage costs of each activity down year after year
- Find ways to reengineer how activities are performed and coordinated—eliminate the costs of unnecessary work steps
- Be creative in cutting low value-added activities out of value chain system—re-invent the industry value chain

Characteristics of a Low-Cost Provider
- Cost conscious corporate culture
- Employee participation in cost-control efforts
- Ongoing efforts to benchmark costs
- Intensive scrutiny of budget requests
- Programs promoting continuous cost improvement

Successful low-cost producers champion frugality but wisely and aggressively invest in cost-saving improvements!

When Does a Low-Cost Strategy Work Best?
- Price competition is vigorous
- Product is standardized or readily available from many suppliers
- There are few ways to achieve differentiation that have value to buyers
- Most buyers use product in same ways
- Buyers incur low switching costs
- Buyers are large and have significant bargaining power
- Industry newcomers use introductory low prices to attract buyers and build customer base

Pitfalls of Low-Cost Strategies
- Being overly aggressive in cutting price
- Low cost methods are easily imitated by rivals
- Becoming too fixated on reducing costs and ignoring
  - Buyer interest in additional features
  - Declining buyer sensitivity to price
  - Changes in how the product is used
- Technological breakthroughs open up cost reductions for rivals
**Differentiation Strategies**

**Objective**
- Incorporate differentiating features that cause buyers to prefer the firm's product or service over brands of rivals.

**Keys to Success**
- Find ways to differentiate that create value for buyers and that are not easily matched or cheaply copied by rivals.
- Not spending more to achieve differentiation than the price premium that can be charged.

**Benefits of Successful Differentiation**

A product/service with unique and appealing attributes allows a firm to:
- Command a premium price and/or
- Increase unit sales and/or
- Build brand loyalty

= Competitive Advantage

**Appeal of Differentiation Strategies**

- A powerful competitive approach when uniqueness can be achieved in ways that:
  - Buyers perceive as valuable and are willing to pay for
  - Rivals find hard to match or copy
  - Can be incorporated at a cost well below the price premium that buyers will pay

**Types of Differentiation Themes**

- Unique taste -- Dr. Pepper
- Multiple features -- Microsoft Windows and Office
- Wide selection and one-stop shopping -- Home Depot and Amazon.com
- Superior service -- FedEx, Ritz-Carlton
- Spare parts availability -- Caterpillar
- More for your money -- McDonald's, Wal-Mart
- Prestige -- Rolex
- Quality manufacture -- Honda, Toyota
- Technological leadership -- 3M Corporation, Intel
- Top-of-the-line image -- Ralph Lauren, Chanel

**Sustaining Differentiation: The Key to Competitive Advantage**

- Most appealing approaches to differentiation:
  - Those hardest for rivals to match or imitate
  - Those buyers will find most appealing
- Best choices for gaining a longer-lasting, more profitable competitive edge:
  - New product innovation
  - Technical superiority
  - Product quality and reliability
  - Comprehensive customer service
  - Unique competitive capabilities

**Where to Find Differentiation Opportunities in the Value Chain**

- Purchasing and procurement activities
- Product R&D and product design activities
- Production process / technology-related activities
- Manufacturing / production activities
- Distribution-related activities
- Marketing, sales, and customer service activities
How to Achieve a Differentiation-Based Advantage

**Approach 1**
Incorporate product features/attributes that lower buyer's overall costs of using product

**Approach 2**
Incorporate features/attributes that raise the performance a buyer gets out of the product

**Approach 3**
Incorporate features/attributes that enhance buyer satisfaction in non-economic or intangible ways

**Approach 4**
Compete on the basis of superior capabilities

Signaling Value as Well as Delivering Value

- Buyers seldom pay for value that is not perceived
- **Signals of value** may be as important as actual value when
  - Nature of differentiation is hard to quantify
  - Buyers are making first-time purchases
  - Repurchase is infrequent
  - Buyers are unsophisticated

When Does a Differentiation Strategy Work Best?

- There are many ways to differentiate a product that have value and please customers
- Buyer needs and uses are diverse
- Few rivals are following a similar differentiation approach
- Technological change and product innovation are fast-paced

Pitfalls of Differentiation Strategies

- Trying to differentiate on a feature buyers do not perceive as lowering their cost or enhancing their well-being
- Over-differentiating such that product features exceed buyers' needs
- Charging a price premium that buyers perceive is too high
- Failing to signal value
- Not understanding what buyers want or prefer and differentiating on the "wrong" things

Competitive Strategy Principle

A low-cost provider strategy can **defeat** a differentiation strategy when buyers are satisfied with a standard product and do not see extra differentiating attributes as worth paying for!

Best Cost Provider Strategies

- Combine a strategic emphasis on low-cost with a strategic emphasis on differentiation
  - Make an upscale product at a lower cost
  - Give customers more value for the money

- Deliver superior value by **meeting or exceeding** buyer expectations on product attributes and **beating** their price expectations
- Be the low-cost provider of a product with good-to-excellent product attributes, then use cost advantage to **underprice** comparable brands
How a Best-Cost Strategy Differs from a Low-Cost Strategy

- **Aim of a low-cost strategy**—Achieve lower costs than any other competitor in the industry
- **Intent of a best-cost strategy**—Make a more upscale product at lower costs than the makers of other brands with comparable features and attributes
  - A best-cost provider cannot be the industry’s absolute low-cost leader because of the added costs of incorporating the additional upscale features and attributes that the low-cost leader’s product doesn’t have.

Competitive Strength of a Best-Cost Provider Strategy

- A best-cost provider’s competitive advantage comes from matching close rivals on key product attributes and beating them on price
- Success depends on having the skills and capabilities to provide attractive performance and features at a lower cost than rivals
- A best-cost producer can often out-compete both a low-cost provider and a differentiator when
  - Standardized features/attributes won’t meet the diverse needs of buyers
  - Many buyers are price and value sensitive

Risk of a Best-Cost Provider Strategy

- **Risk**—A best-cost provider may get squeezed between strategies of firms using low-cost and differentiation strategies
  - Low-cost leaders may be able to siphon customers away with a lower price
  - High-end differentiators may be able to steal customers away with better product attributes

Focus / Niche Strategies

- Involve concentrated attention on a narrow piece of the total market
  - **Objective**
    - Serve niche buyers better than rivals
  - **Keys to Success**
    - Choose a market niche where buyers have distinctive preferences, special requirements, or unique needs
    - Develop unique capabilities to serve needs of target buyer segment

Focus / Niche Strategies and Competitive Advantage

- **Approach 1**
  - Achieve lower costs than rivals in serving the segment—A low-cost strategy
- **Approach 2**
  - Offer niche buyers something different from rivals—A differentiation strategy

What Makes a Niche Attractive for Focusing?

- Big enough to be profitable and offers good growth potential
- Not crucial to success of industry leaders
- Costly or difficult for multi-segment competitors to meet specialized needs of niche members
- Focuser has resources and capabilities to effectively serve an attractive niche
- Few other rivals are specializing in same niche
- Focuser can defend against challengers via superior ability to serve niche members
**Risks of a Focus Strategy**
- Competitors find effective ways to match a focuser’s capabilities in serving niche
- Niche buyers’ preferences shift towards product attributes desired by majority of buyers - niche becomes part of overall market
- Segment becomes so attractive it becomes crowded with rivals, causing segment profits to be splintered

**Merger and Acquisition Strategies**
- **Merger** - Combination and pooling of equals, with newly created firm often taking on a new name
- **Acquisition** - One firm, the acquirer, purchases and absorbs operations of another, the acquired
- **Cooperative Alliances**

**Vertical Integration Strategies**
- Vertical integration extends a firm's competitive scope within same industry
  - **Backward** into sources of supply
  - **Forward** toward end-users of final product
- Can aim at either full or partial integration

**Strategic Disadvantages of Vertical Integration**
- Boosts resource requirements
- Locks firm deeper into same industry
- Results in fixed sources of supply and less flexibility in accommodating buyer demands for product variety
- Poses problems of balancing capacity at each stage of value chain
- May require radically different skills / capabilities
- Reduces manufacturing flexibility, lengthening design time and ability to introduce new products

**Defensive Strategies: Approaches**
- **Approach 1**
  Block avenues open to challengers
- **Approach 2**
  Signal challengers that vigorous retaliation is likely

**First-Mover Advantages**
- **When** to make a strategic move is often as crucial as **what** move to make
- **First-mover advantages arise when**
  - Pioneering helps build firm’s image and reputation
  - Early commitments to new technologies, new-style components, and distribution channels can produce cost advantage
  - Loyalty of first time buyers is high
  - Moving first can be a preemptive strike
First-Mover Disadvantages

- Moving early can be a disadvantage (or fail to produce an advantage) when
  - Costs of pioneering are sizable and loyalty of first time buyers is weak
  - Innovator's products are primitive, not living up to buyer expectations
  - Rapid technological change allows followers to leapfrog pioneers