The Central Role of Customers

In selecting a business-level strategy, the firm determines
1. who it will serve
2. what needs those target customers have that it will satisfy
3. how those needs will be satisfied

Types of Business-Level Strategies

- Business-level strategies are intended to create differences between the firm’s position relative to those of its rivals
- To position itself, the firm must decide whether it intends to perform activities differently or to perform different activities as compared to its rivals
Five Generic Strategies

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Cost Leadership Strategy

An integrated set of actions designed to produce or deliver goods or services at the lowest cost, relative to competitors with features that are acceptable to customers:
- relatively standardized products
- features acceptable to many customers
- lowest competitive price

Cost saving actions required by this strategy:
- building efficient scale facilities
- tightly controlling production costs and overhead
- minimizing costs of sales, R&D and service
- building efficient manufacturing facilities
- monitoring costs of activities provided by outsiders
- simplifying production processes
Factors That Drive Costs

- Economies of scale
- Asset utilization
- Capacity utilization pattern
  - Seasonal, cyclical
- Interrelationships
- Order processing and distribution
- Value chain linkages
  - Advertising & sales
  - Logistics & operations
- Product features
- Performance
- Mix & variety of products
- Service levels
- Small vs. large buyers
- Process technology
- Wage levels
- Product features
- Hiring, training, motivation

Major Risks of Cost Leadership Strategy

- Dramatic technological change could take away your cost advantage
- Competitors may learn how to imitate value chain
- Focus on efficiency could cause cost leader to overlook changes in customer preferences

Differentiation Strategy

An integrated set of actions designed by a firm to produce or deliver goods or services (at an acceptable cost) that customers perceive as being different in ways that are important to them
- Price for product can exceed what the firm’s target customers are willing to pay
- Nonstandardized products
- Customers value differentiated features more than they value low cost
Differentiation Strategy

Differentiation actions required by this strategy:
– developing new systems and processes
– shaping perceptions through advertising
– quality focus
– capability in R&D
– maximize human resource contributions through low turnover and high motivation

Factors That Drive Differentiation

• Unique product features
• Unique product performance
• Exceptional services
• New technologies
• Quality of inputs
• Exceptional skill or experience
• Detailed information

Major Risks of Differentiation Strategy

• Customers may decide that the price differential between the differentiated product and the cost leader's product is too large
• Means of differentiation may cease to provide value for which customers are willing to pay
• Makers of counterfeit goods may attempt to replicate differentiated features of the firm's products
Focused Business-Level Strategies

A focus strategy must exploit a narrow target’s differences from the balance of the industry by:
– isolating a particular buyer group
– isolating a unique segment of a product line
– concentrating on a particular geographic market
– finding their “niche”

Factors That May Drive Focused Strategies

● Large firms may overlook small niches
● Firm may lack resources to compete in the broader market
● May be able to serve a narrow market segment more effectively than can larger industry-wide competitors
● Focus may allow the firm to direct resources to certain value chain activities to build competitive advantage

Major Risks of Focused Strategies

● Firm may be “outfocused” by competitors
● Large competitor may set its sights on your niche market
● Preferences of niche market may change to match those of broad market
Advantages of Integrated Strategy

A firm that successfully uses an integrated cost leadership/differentiation strategy should be in a better position to:
- adapt quickly to environmental changes
- learn new skills and technologies more quickly
- effectively leverage its core competencies while competing against its rivals

Benefits of Integrated Strategy

- Successful firms using this strategy have above-average returns
- Firm offers two types of values to customers
  - some differentiated features (but less than a true differentiated firm)
  - relatively low cost (but now as low as the cost leader’s price)

Major Risks of Integrated Strategy

- An integrated cost/differentiation business level strategy often involves compromises (neither the lowest cost nor the most differentiated firm)
- The firm may become “stuck in the middle” lacking the strong commitment and expertise that accompanies firms following either a cost leadership or a differentiated strategy