

# Generic Competitive Strategies

- To cope with the five competitive forces, the firms can adopt the following strategies to outperform other firms in an Industry

1. Overall Cost –Leadership

2. Differentiation

3. Focus

		Three Generic Strategies	
		Competitive Advantage	
		Differentiation	Low Cost
Competitive Scope	Industrywide	Differentiation	Overall Cost Leadership
	Particular Segment Only	Focus	

Three Generic Competitive Strategies

# Over all cost Leadership

- Cost Leadership requires aggressive construction of efficient scale facilities, tight cost control, avoidance of marginal customer accounts and cost minimisation.
- However quality, services and other areas can not be ignored.
- Examples: Bajaj Motorcycles, Maruti, Nirma
- Ford in U.S.A



## The Risks of Following an Overall Cost Leadership Strategy

It can be expensive as the organization continually updates its capital equipment

Competitors may be able to imitate the activities of the cost leader

A change in technology may nullify past investments in capital equipment and allow competitors to take market share

Customer tastes may change which results in them being less price sensitive and more willing to pay a higher price for a differentiated product

# Differentiation

- Differentiation implies creating something that is perceived Industry wide as being Unique. Approaches to differentiation can take several forms
- E.g.Design or Brand Image(Mercedes)
- Technology (V-Tech by Honda)
- Customer Service

# Differentiation Strategy

- Aimed at a broad market and involves the organization competing on the basis of a product or service that is recognised by consumers as unique
- This difference must be sufficiently valued by consumers that they are willing to pay a premium price for it
- A major benefit of producing a differentiated product is that rivals will find it difficult to imitate
- A differentiation strategy will involve different resources, capabilities and organizational arrangements than a strategy based on cost leadership

- Differentiation Strategy does not allow the firms to ignore costs, but costs are not the primary strategic target.



# The Risks of Following a Differentiated Strategy

- The high price charged for differentiation must not be too far above competitors that it results in reduced brand loyalty
- Buyers may decide that their need for a differentiated product has declined
- Competitors may narrow the attributes of differentiation which results in consumers being faced with a viable substitute

# Focus

- Focus can be on a particular buyer group, segment of the product line or geographic market
- Serving a segment (or segments) of the market
- This might be a particular group of consumers, a specific geographical market, in effect, any viable segment of the market
- Examples of focus strategies include Cartier for jewellery, Burberry for fashion and Toyota for hybrid cars
- By focusing on a niche of the market, the organization may be better placed to meet the needs of buyers than competitors who are trying to compete across the whole industry
- An organization can achieve competitive advantage either through lower costs or differentiation focus

# The Risks of Following a Focus Strategy

- Customer preferences may change and the niche player may be unable to respond
- Broad based competitors believe the segment represents an attractive submarket and outfocus the focuser
- The difference between the segment and the main market narrows leaving focus based competitors at a disadvantage.



# Stuck in the Middle

- An organization that fails to pursue at least one of these generic strategies:
- lacks the market share, capital investment, and resolve to play the low cost game, the industry wide differentiation necessary to obviate the need for a low-cost position, or the focus to create differentiation or a low-cost position in a more limited sphere.



# Competitive Advantage of a Firm

- A firm can use its resources and capabilities to develop competitive advantage. However the sustainability of these advantages depends on
  1. Durability, and
  2. Imitability

# Durability

- It is the rate at which a firm's core competency can be duplicated by others.
- New technology can make a firm's core competency obsolete or irrelevant.
- Intel Corp

# Imitability

- It is the rate at which a firm's underlying resources and capabilities can be duplicated by others.
- Competitor's effort may range from reverse engineering to hiring employees from the competitor to outright patent infringement
- A core competency can be easily imitated to the extent it is transparent, transferable and replicable.

- Transparency is the speed with which other firms can understand the relationship of resources and capabilities supporting a successful firm's strategy .
- E.g. Gillete



- Transferability-It is the ability of the Competitor to gather the resources and capabilities necessary to support a competitive challenge.
- E.g. It may be difficult for a wine maker to duplicate a French winery's key resources of land and climate ,especially if the imitator is located in Iowa.

- Replicability-It is the ability of competitors to use duplicated resources and capabilities to imitate other firm's success.
- For example,even though many companies have tried to imitate P&G's success with brand management by hiring brand managers away from P&G they have often failed to duplicate P&G's success.