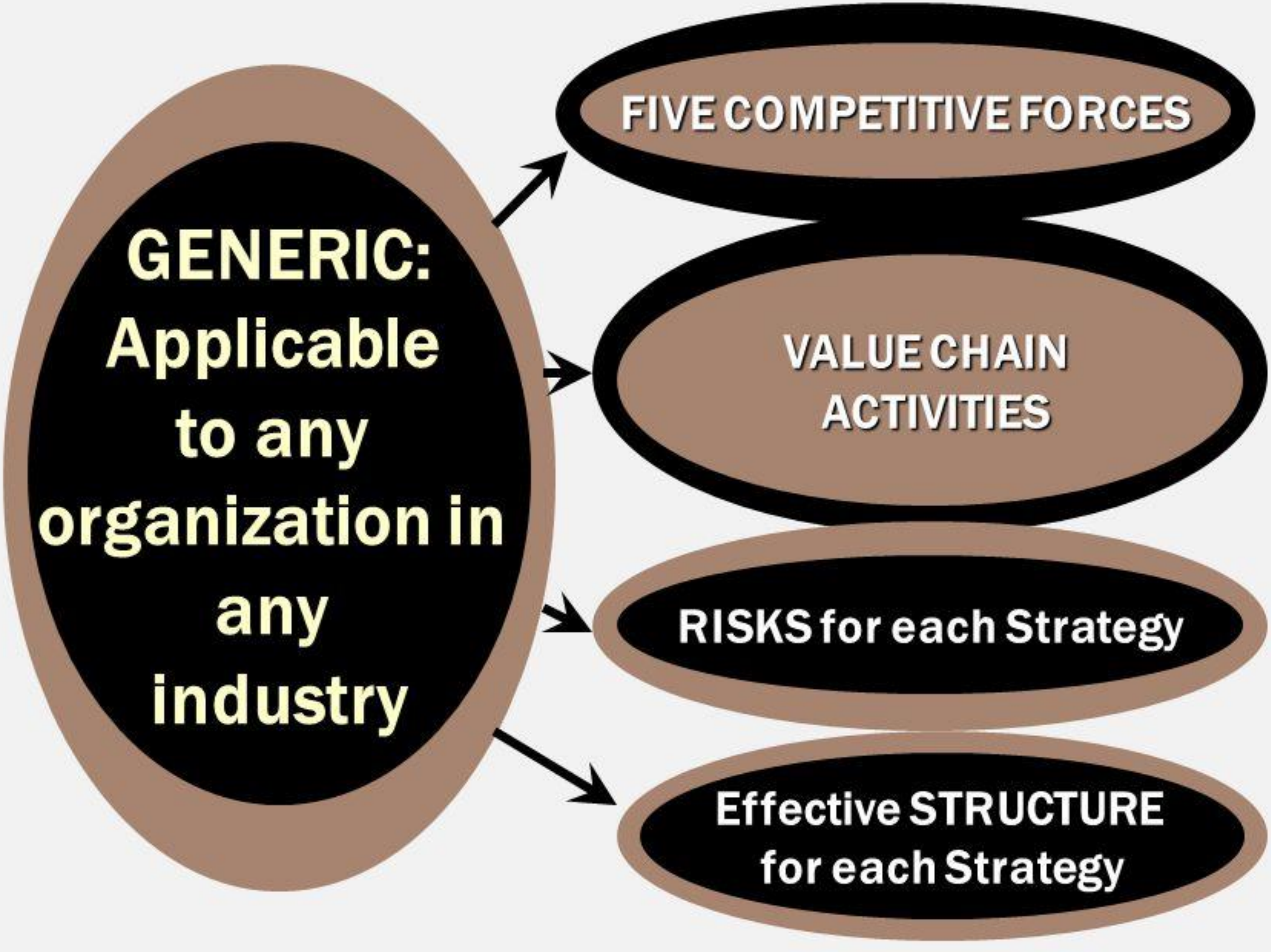
On Generic Strategies

Dr. Nicholas Aristotle Demos

…. the Ultimate Objective is ….

I) Generic Business Strategies

Generic strategies ….



Generic strategies ….

- How **Generic Strategies** affect Competitive Advantage and Profitability?

1. **Cost**
2. **Differentiation**
   - **Focus**
     - ***Combining Cost & Differentiation Strategies***

- **Blue Ocean Strategies**
  - **Innovation a strong tactical tool**

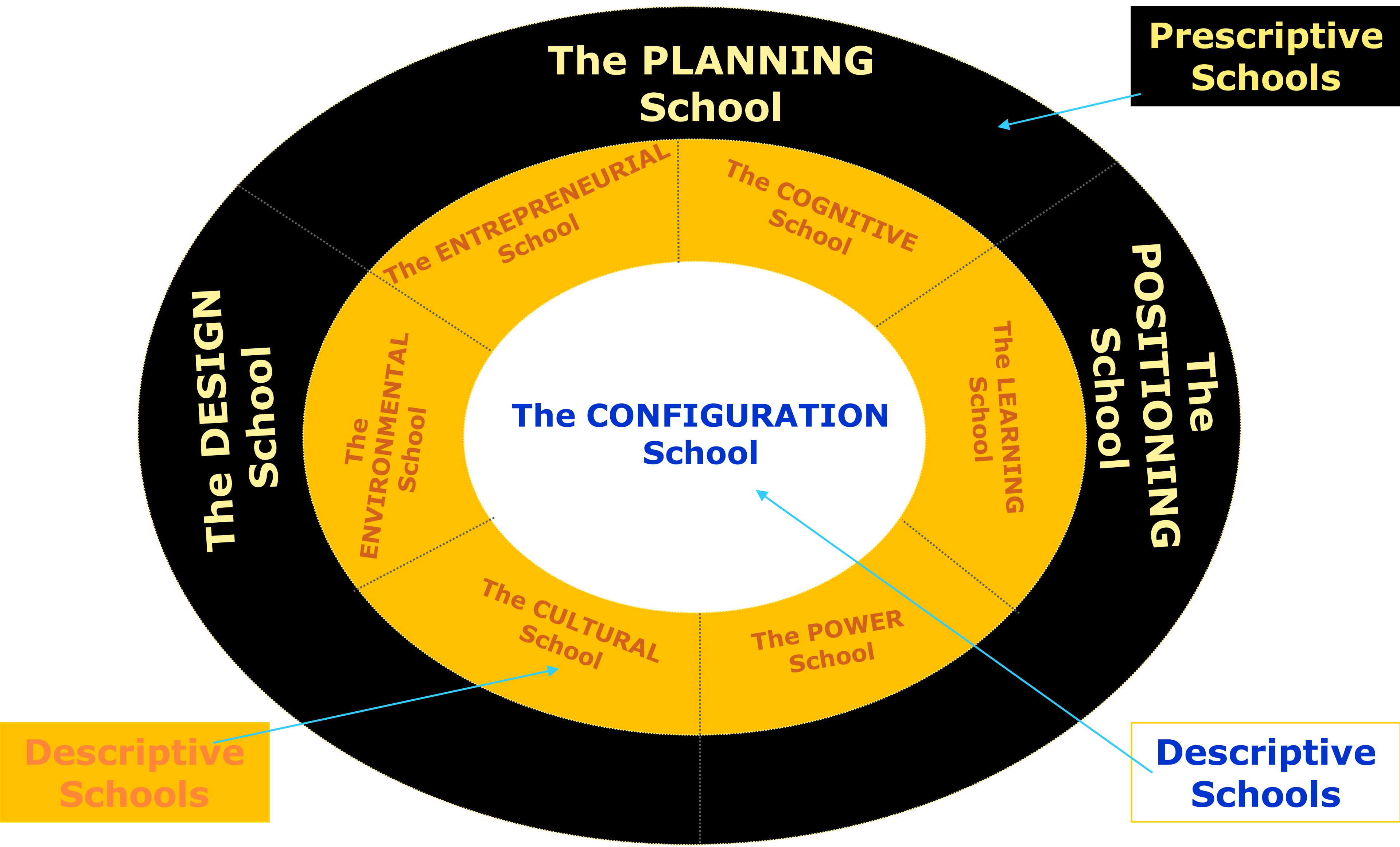
Generic strategies ….

- ….the Ways *(TAO)* of **company positions itself** in the marketplace to gain a competitive advantage?

- Different **positioning strategies** that can be used in different industry settings ***(flight or fight)?***

II) Schools of Strategic Management

Ten schools of Strategic Management



Ten schools of Strategic Management

1. The Design School - strategy formation as a process of conception
2. The Planning School - strategy formation as a formal process
3. The Positioning School - strategy formation as an analytical process
4. The Entrepreneurial School - strategy formation as a visionary process
5. The Cognitive School - strategy formation as a mental process
6. The Learning School - strategy formation as an emergent process
7. The Power School - strategy formation as a process of negotiation
8. The Cultural School - strategy formation as a collective process
9. The Environmental School - strategy formation as a reactive process
10. The Configuration School - strategy formation as a process of transformation

Let's analyze some of these schools of SM

2) The Planning School

1. *Igor Ansoff (Corporate Strategy 1965)*
2. *The Steiner Model of Strategic Planning (1969)*
3. *Stanford (1963)*
4. *GE planning cycle (1980)*
5. *Planning Hierarchies (Mintzberg 1994)*
6. *Game Theory*

The Ansoff Product/Market Growth Matrix

Market Penetration

Options to grow via market penetration

- Increase Frequency of Use
- Increase Quantity Used
- Convert Nonbuyers
- New Applications
- Convert Lost Customers
- Convert Competitor’s Customers

Product Development

Product Improvements

Product Innovations

Product Line-Extensions

Cross Selling

Market Development

- It is expanding sales of
  - **existing products** to
  - **new geographic markets or to new segments**

- It requires:
  - *Building brand awareness and brand image*
  - *Accessing new distribution channels*
  - *Confronting new competitors*
  - *Formulating new marketing strategies*

Diversification

- Taking a
  - **new product** to a
  - **new market** *is the strategy with the highest risk*
- *It has the lowest probability of success*
- *It needs the highest amount of resources*

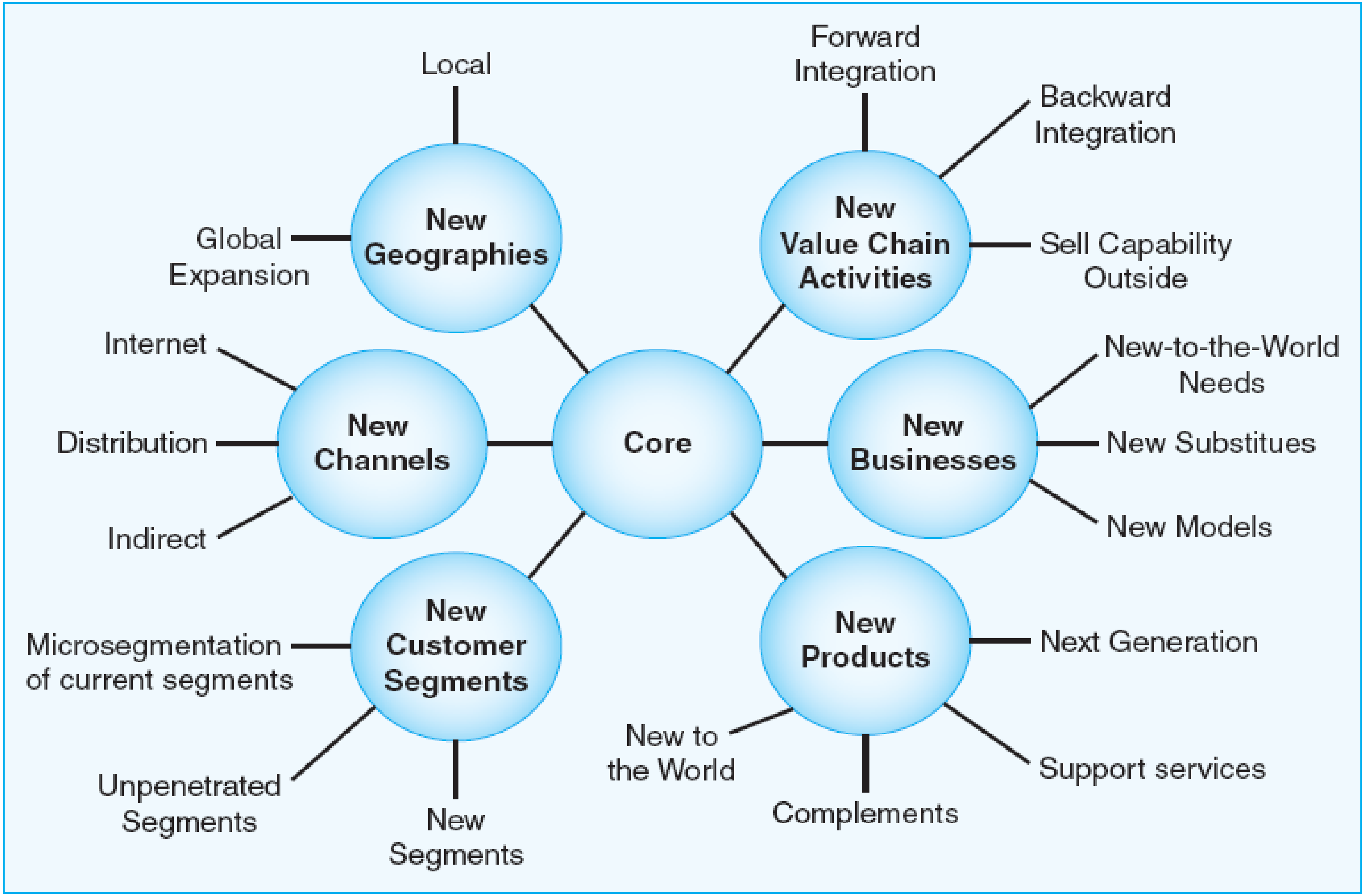
- Ways of diversification
  - **Related diversification**
    - A company enters a new market with a new product attaining synergies by sharing assets or competencies across businesses
  - **Unrelated diversification**
    - A company enters a new market with a new product not related to the existing product markets

  - **Forward and backward integration**
    - **Forward integration** occurs when a company decides to move downstream the product flow
    - **Backward integration** means that a company moves upwards

Strategic Planning within the Ansoff Matrix

	Existing Products		New Products	
Exisitng Markets	**Market Penetration:** • Increase Frequency of Use • Increase Quantity Used • Convert Non-Buyers • New Applications • Convert Lost Customers • Convert Competitor‘s Customers		**Product Development:** • Product Improvements • Product Innovations • Product-Line Extensions • Cross Selling	
	Probability of Success: **50%**	Effort: **100%**	Probability of Success: **33%**	Effort: **800%**
New Markets	**Market Development:** • Expand Geographically • Target New Segments		**Diversification:** • Related Diversification • Unrelated Diversification • Forward Integration • Backward Integration	
	Probability of Success: **20%**	Effort: **400%**	Probability of Success: **5%**	Effort: **1200%-1400%**

Building from the Core and Identifying Adjacencies



3) The Positioning School

1. *Sun Tzu & Clausewitz*
2. *PIMS – Profit Impact of Market Strategies (GE 1972)*
3. *BCG Growth-Share Matrix (Bruce Henderson 1979)*
4. *Porter's model of Competitive Advantage (1980)*
5. *Generic Strategic Groups (Mintzberg)*
6. *Game Theory*

The theoretical origins: **Master SUN TZU**

- **When people are challenged, they react in one of two ways:**
  a) They runaway – "Flight reflex" (Running away from challenges)
  b) They fight back (attack) – "Fight reflex" (getting into battles)

- **Sun Tzu advises us neither flight nor fight**

  But ride the *"magic of positioning".* Because success comes from using your position.

- **Strategically – both victory and defeat are similar. Each puts you in a new position.**

  - **When you win, you realize the real challenge just starts…**

  - **When you fail, the knowledge you gain gives you a competitive advantage and tenacity…**

Theoreticians: Military Strategists

Sun Tzu (400 B.C.)

"The expert in battle seeks his victory from strategic advantage and does not demand it from his men"

"Strategy without tactics is the slowest route to victory.
Tactics without strategy is the noise before defeat"

Carl von Clausewitz (1780-1831)

"We repeat again: strength of character does not consist solely in having powerful feelings, but in maintaining one's balance in spite of them.
Even with the violence of emotion, judgment and principle must still function like a ship's compass, which records the slightest variations however rough the sea"

"If the leader is filled with high ambition and if he pursues his aims with audacity and strength of will, he will reach them in spite of all obstacles"

The BCG Growth-Share Matrix

Market Growth Rate (HIGH ↑ LOW)

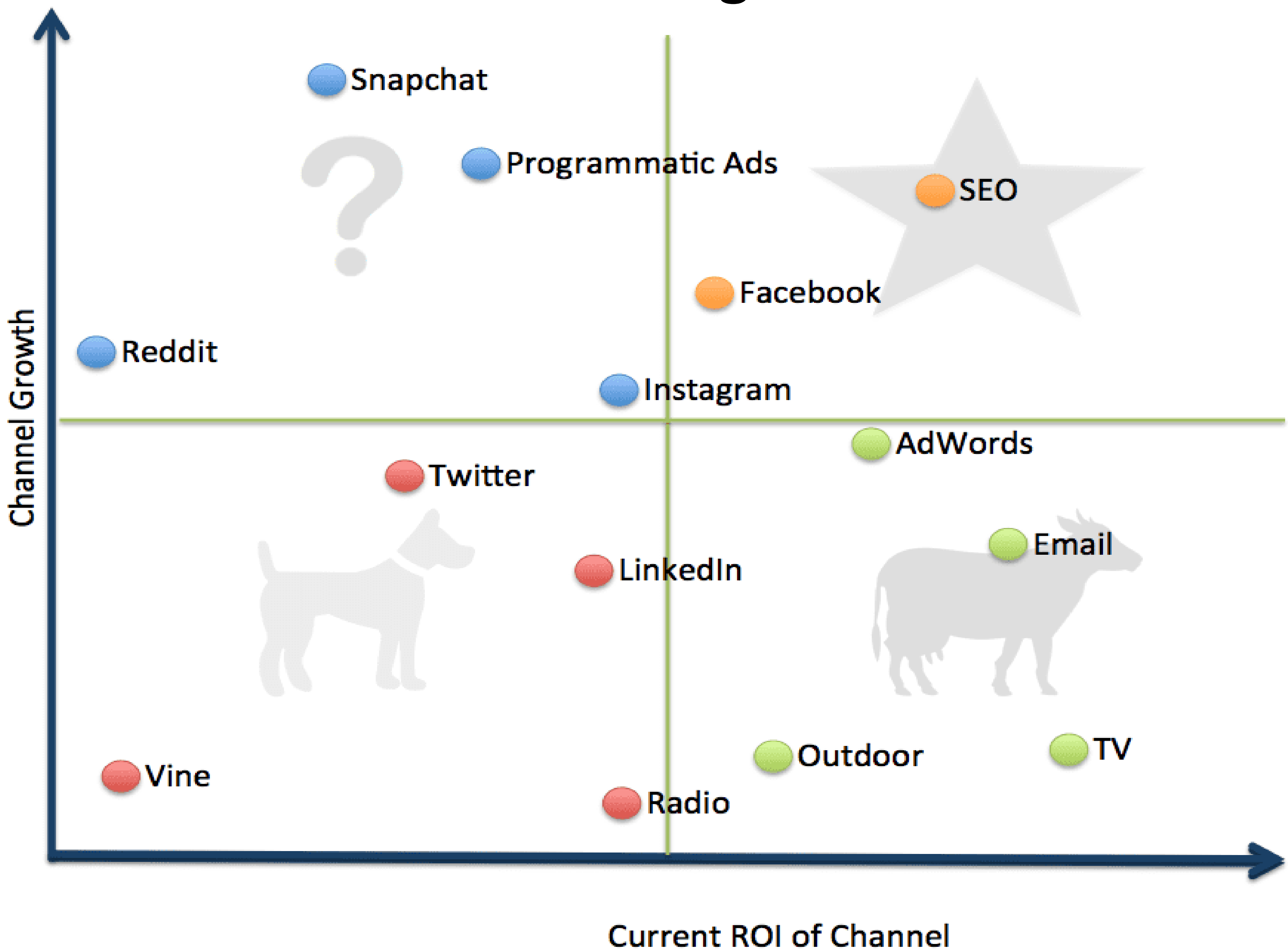
	HIGH	LOW
HIGH	**STAR** Earning: high ,stable, growing Cash Flow: neutral Strategy: invest for growth *"HIGH ARKET SHARE AND GROWTH"*	**QUESTION MARK** Earning: Low , Unstable, Growing Cash Flow: negative Strategy: analyze to determine whether business can be grown into a star or will degenerate into a dog "LOW MARKET SHARE AND HIGH GROWTH"
LOW	**CASH COW** Earning: high, stable Cash Flow: high, stable Strategy: milk "HIGH MARKET SHARE AND GROWTH" 	**DOG** Earning: low, unstable Cash Flow: negative or neutral Strategy: Divest "LOW MARKET SHAR E AND GROWTH" 

HIGH → LOW

Relative Market share

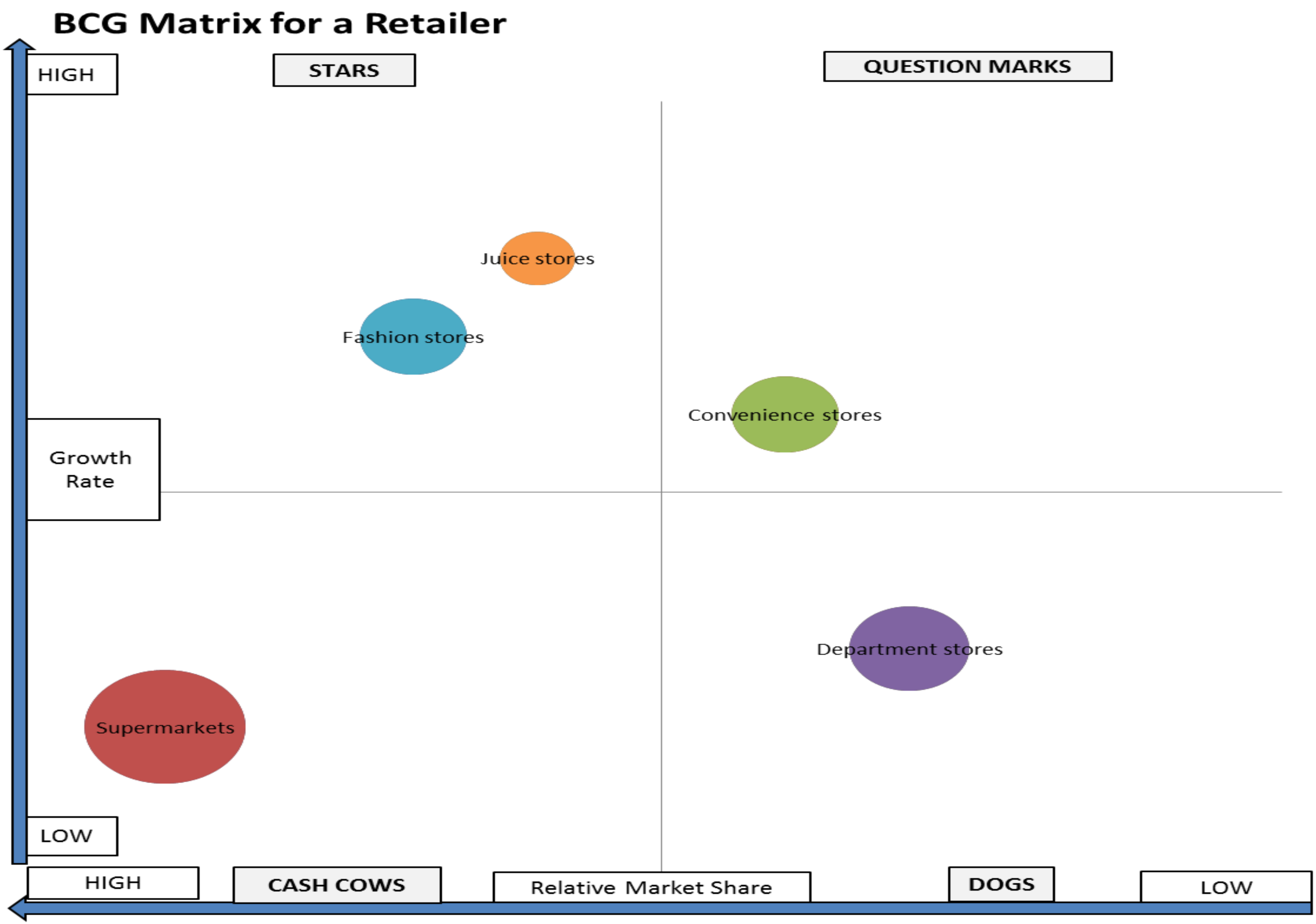
The BCG Growth-Share Matrix

BCG – Digital

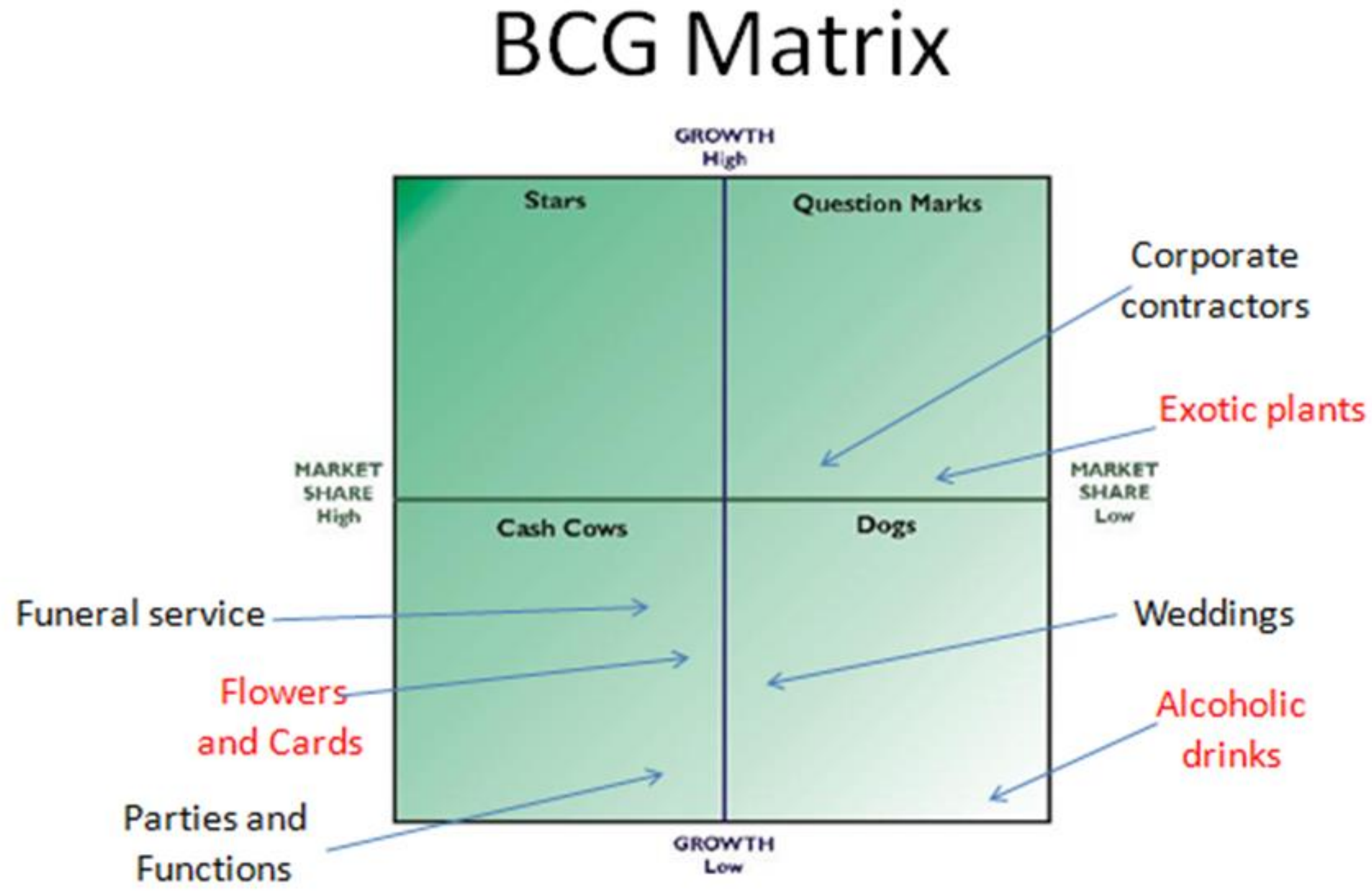


Snapchat
Programmatic Ads
SEO
Facebook
Reddit
Instagram
AdWords
Twitter
Email
LinkedIn
Outdoor
TV
Vine
Radio
Channel Growth
Current ROI of Channel

BCG – Retail Industry



BCG – Various Industries



Porter’s Completive Advantage model

Cost Leadership	– producing and marketing a good quality product or service at a lower cost than your competitors.
Differentiation	– creating a product or service that is perceived as being unique "throughout the industry".
Focus	– addressing a "focused" segment of the marketplace, product form or cost management process

Source: "Competitive Advantage", Michael Porter

1000ventures.com

Generic Strategies

Cost Leadership

- Superior profits through lower costs.
- E.g. : WalMart, Tesco

Differentiation

- Creating a product or service that is perceived as being unique “throughout the industry”
- E.g. : Mcdonald, FedEx

Focus

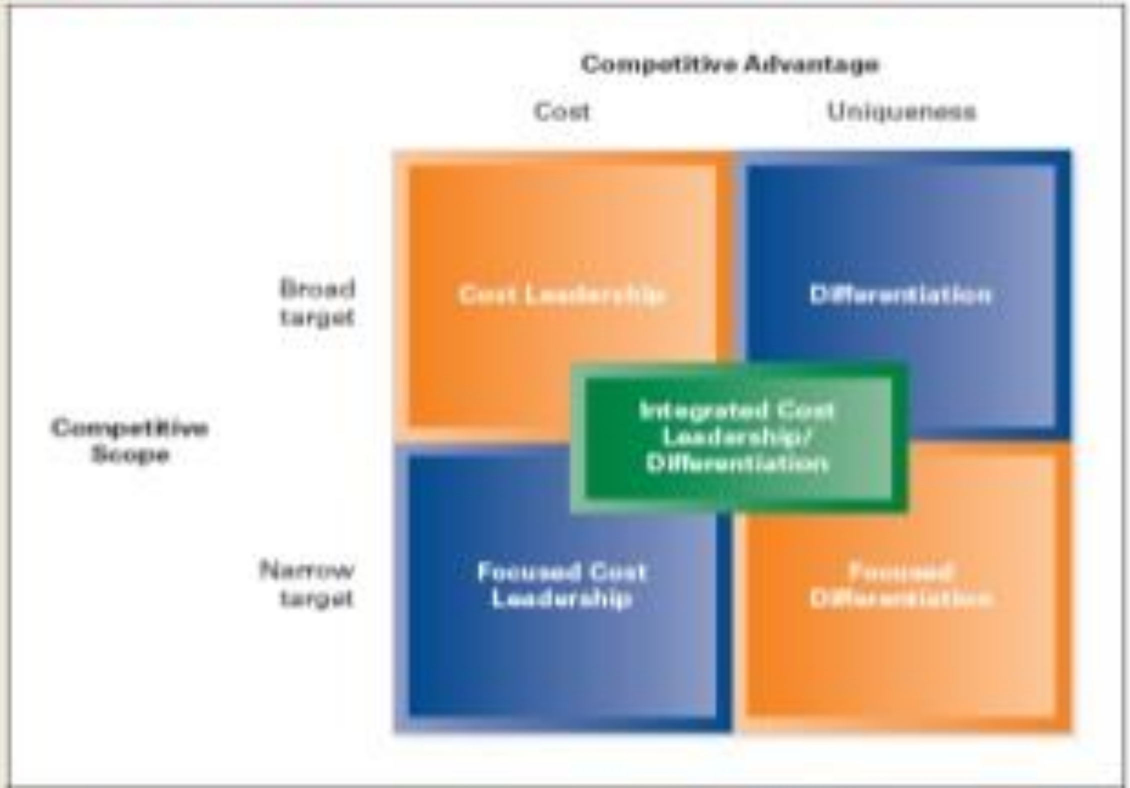
- Concentrating on a limited part of the market.
- E.g. : PepsiCo

STRATEGIC ADVANTAGE

	Uniqueness Perceived by the Customer	Low Cost Position
Industrywide	DIFFERENTIATION	OVERALL COST LEADERSHIP
Particular Segment Only	FOCUS	

If we include the "Scope" … then we can have 5 options …

- Two types of competitive advantage firms must choose between
  - Cost (Are we LOWER than others?)
  - Uniqueness (Are we DIFFERENT? How?)
- Two types of 'competitive scope' firms must choose between
  - Broad target
  - Narrow target
- These combine to yield 5 different BL strategies



III) Analyzing
the Three Generic Business Strategies

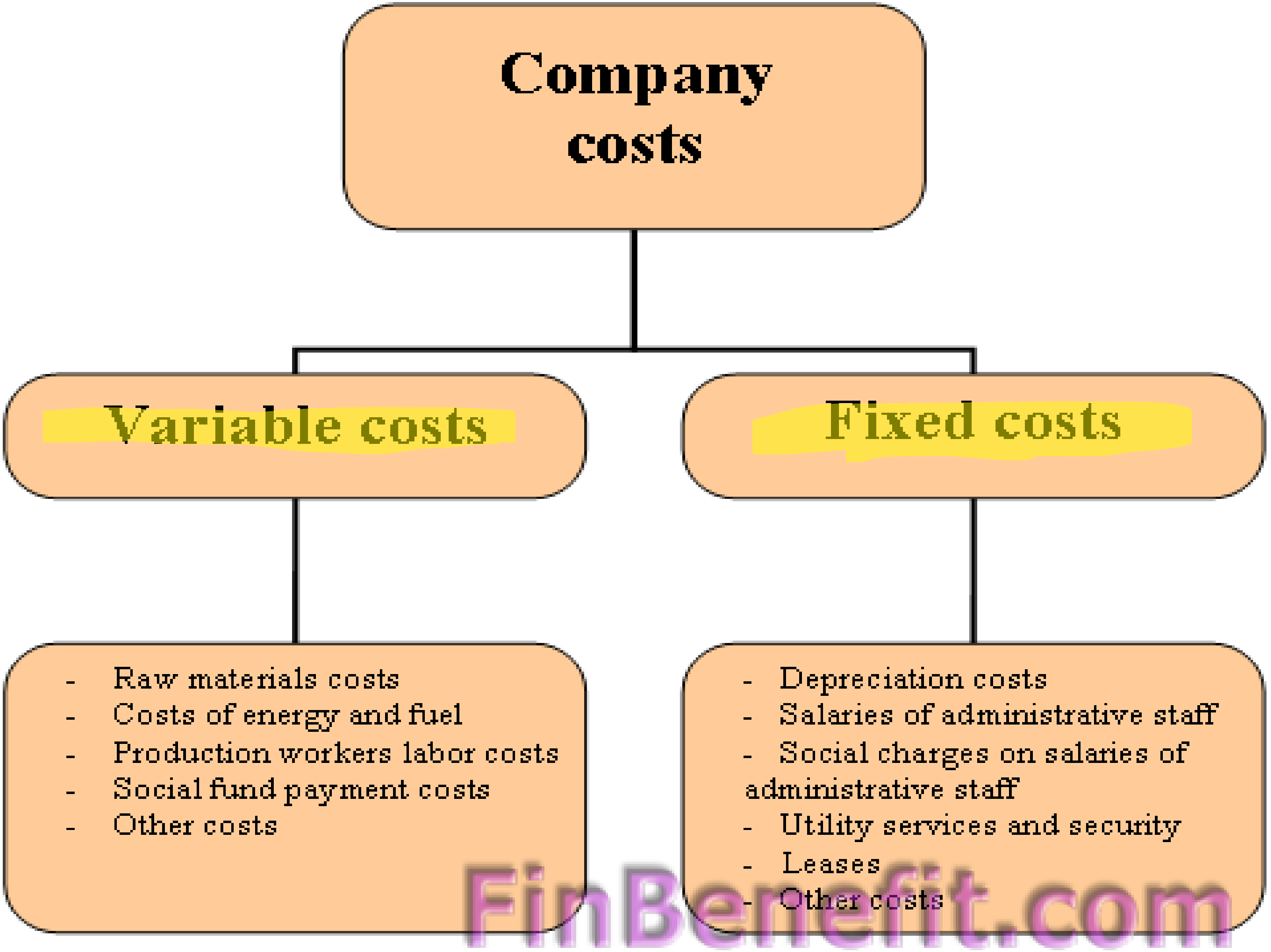
1) Cost *focused* strategies

cost leadership

Strategy used by businesses to create a low cost of operation within their niche. The use of this strategy is primarily ...

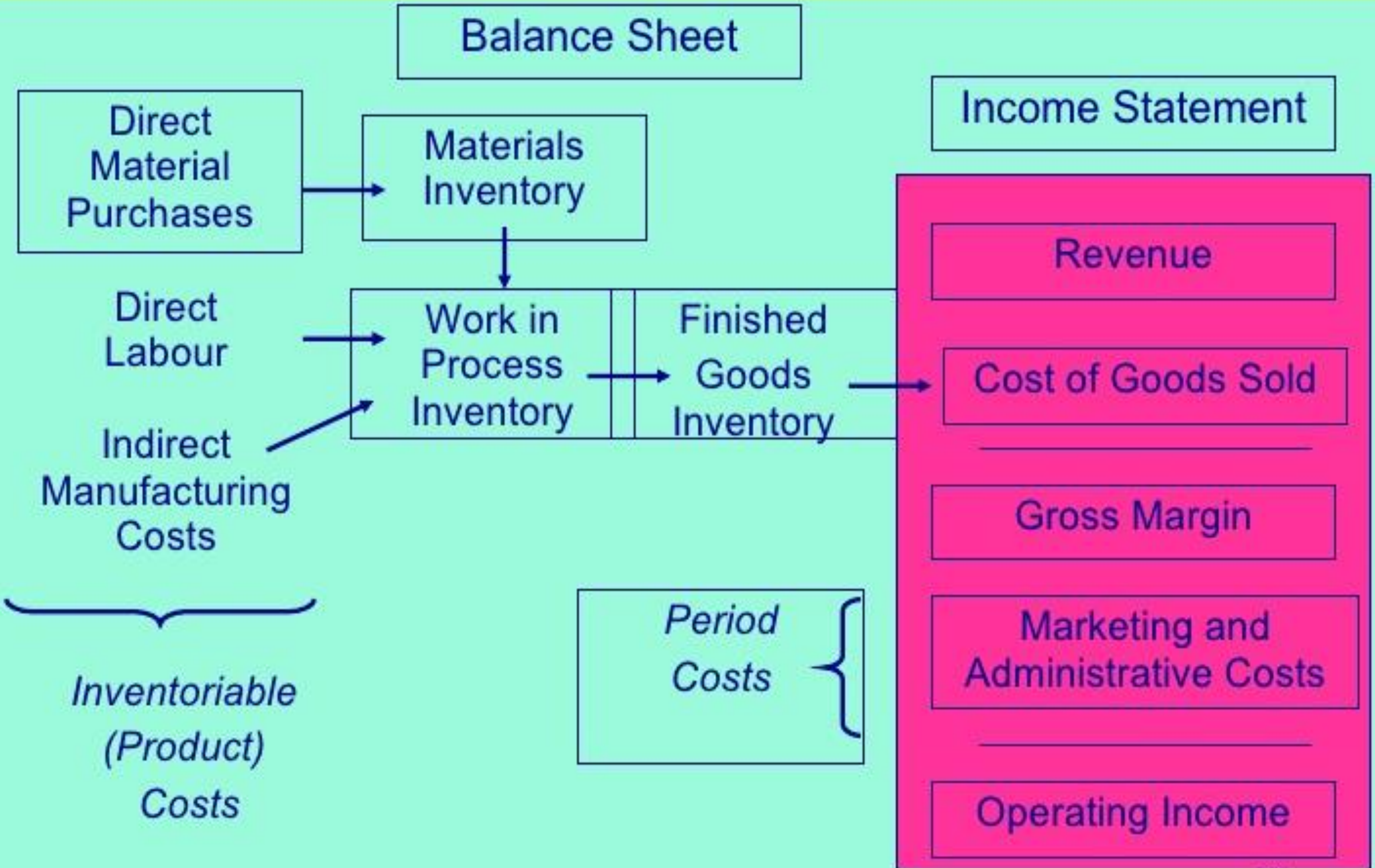

REDUCED PRICING
PAYMENT RECOVERY
INCREASED EFFICIENCY
COST REDUCTION
WEB-BASED REPORTING
MONITORING
VENDOR MANAGEMENT


ASSESSMENT
Cost Reduction
Workload Management
Business Continuity
Talent Augmentation
Right Sourcing
IMPLEMENTATION
PLANNING


Company costs
Variable costs
Fixed costs
- Raw materials costs
- Costs of energy and fuel
- Production workers labor costs
- Social fund payment costs
- Other costs
- Depreciation costs
- Salaries of administrative staff
- Social charges on salaries of administrative staff
- Utility services and security
- Leases
- Other costs
FinBenefit.com

One-off Cost		Monthly Cost	
Market research fee	RM2,000	Loan repayment	RM3,537
Compliance needs	RM3,610	Premise rental	RM6,000
Premise renovation	RM50,000	Supplies	RM3,000
Equipment	RM32,000	Employee expenses (Salary and EPF)	RM16,800
Advertising & promotion	RM30,640	Insurance premium	RM900
Employee expenses (Medical coverage & uniform)	RM4,500	Utilities	RM5,000
Technological expenses	RM4,389		
TOTAL:	**RM127,139**	**TOTAL:**	**RM35,237**

Costs in a Manufacturing Company



Cost Leadership Strategies:

- Alternative cost reduction strategies include:
  - Building efficient scale facilities.
  - Cost reductions through experience.
  - Establish tight cost and overhead controls.
  - Avoidance of marginal customer accounts.
  - Cost minimization in R&D, service, and sales forces.

- Requirements for usage:
  - High relative market share (economies of purchasing).
  - Favorable access to raw materials.
  - Design of products towards ease of manufacturing.
  - High margins are reinvested to maintain cost leadership.
  - Examples: Emerson Electronics, Texas Instruments, and Black & Decker.

2) Differentiation *focused* strategies

Differentiation Strategy

- A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers.
- Customers perceive the product to be different and better than that of rivals.
- The value added by the uniqueness of the product may allow the firm to charge a premium price for it.
- Differentiation can be based on product image or durability,after-sales,quality,additional features.
- It requires flair,research capability and strong marketing.

Differentiation

Image

- Young
- Innovative
- Intuitive / Simple
- Nomadic
- Green
- Tool Company

These combined provide ubiquitous information.

Customization (N=1)

- Accessories
- Web Gadgets
- Only features that add value to the subscription fee

Price

Unique pricing structure as it relates to current pricing and sales structures used by incumbent software firms in the industry.

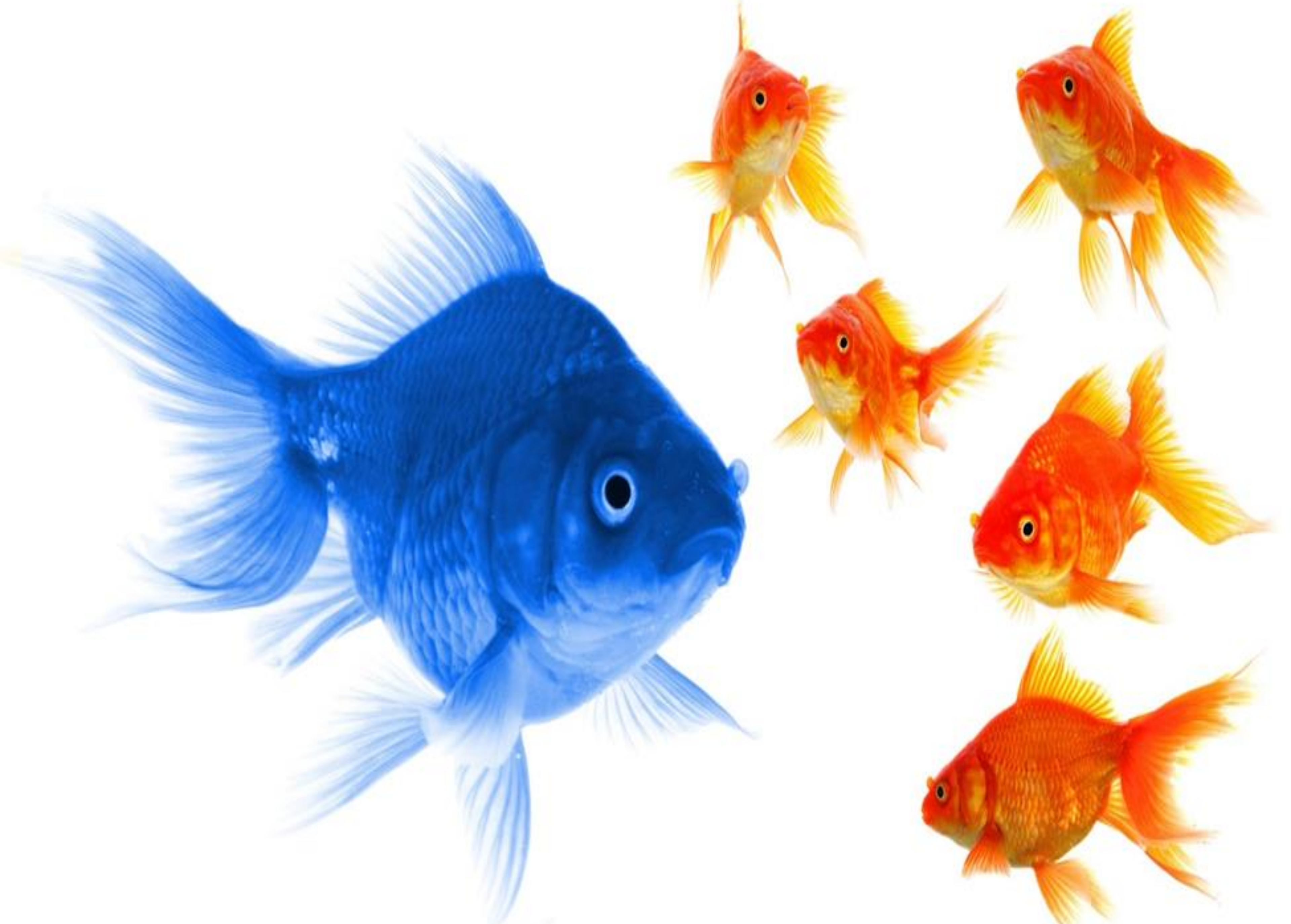
Styling

Strong focus on user interaction.

- Wire frames that aid in understanding user interactions with our applications
- Combine creativity with functionality
- "Sketching User Experiences"

Product Reliability

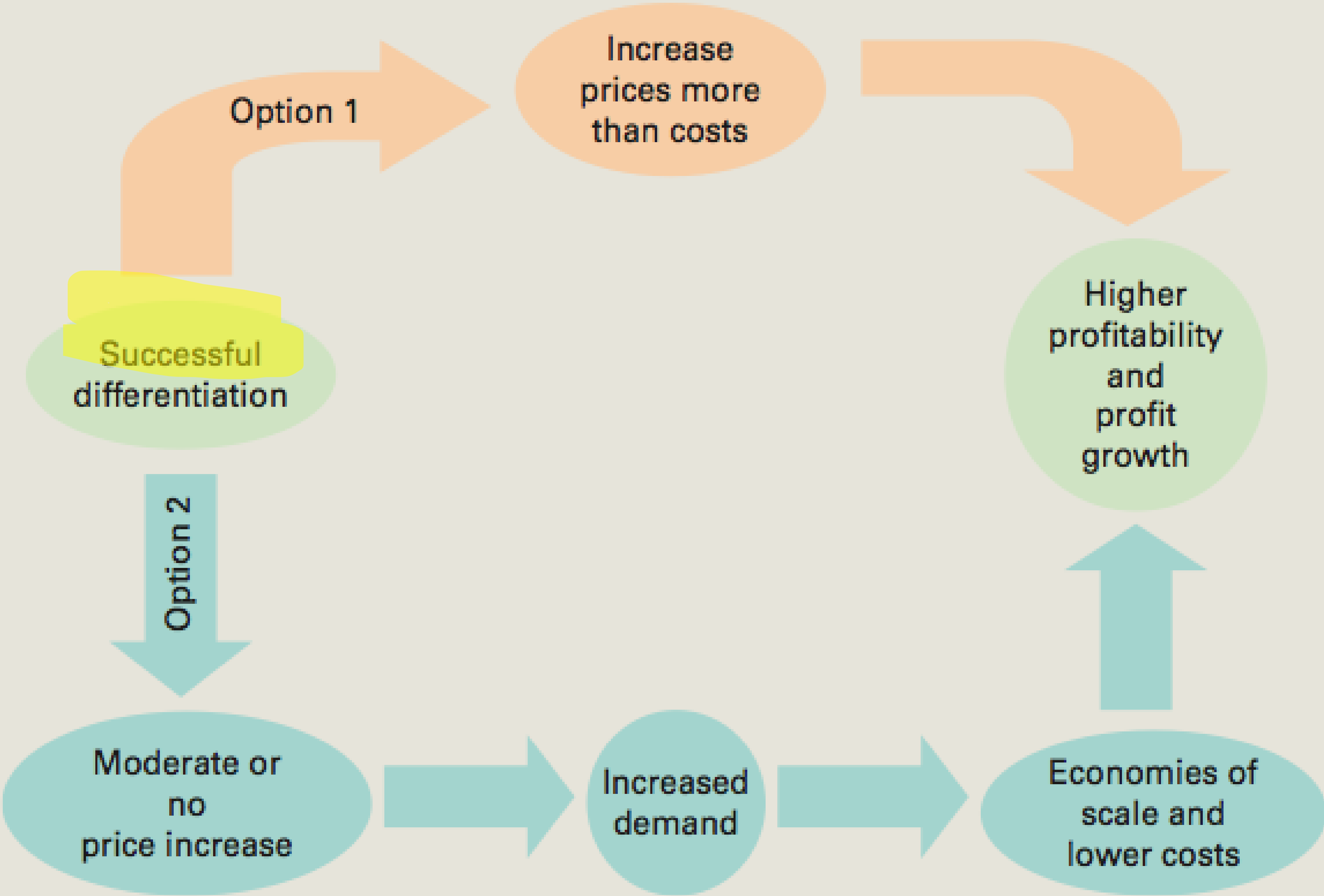
- 99% uptime for web / software apps
- Hardware we will initially need to work close with manufacturer to ensure quality control.
- As we transition into platform, quality will become more complex with more hardware players.

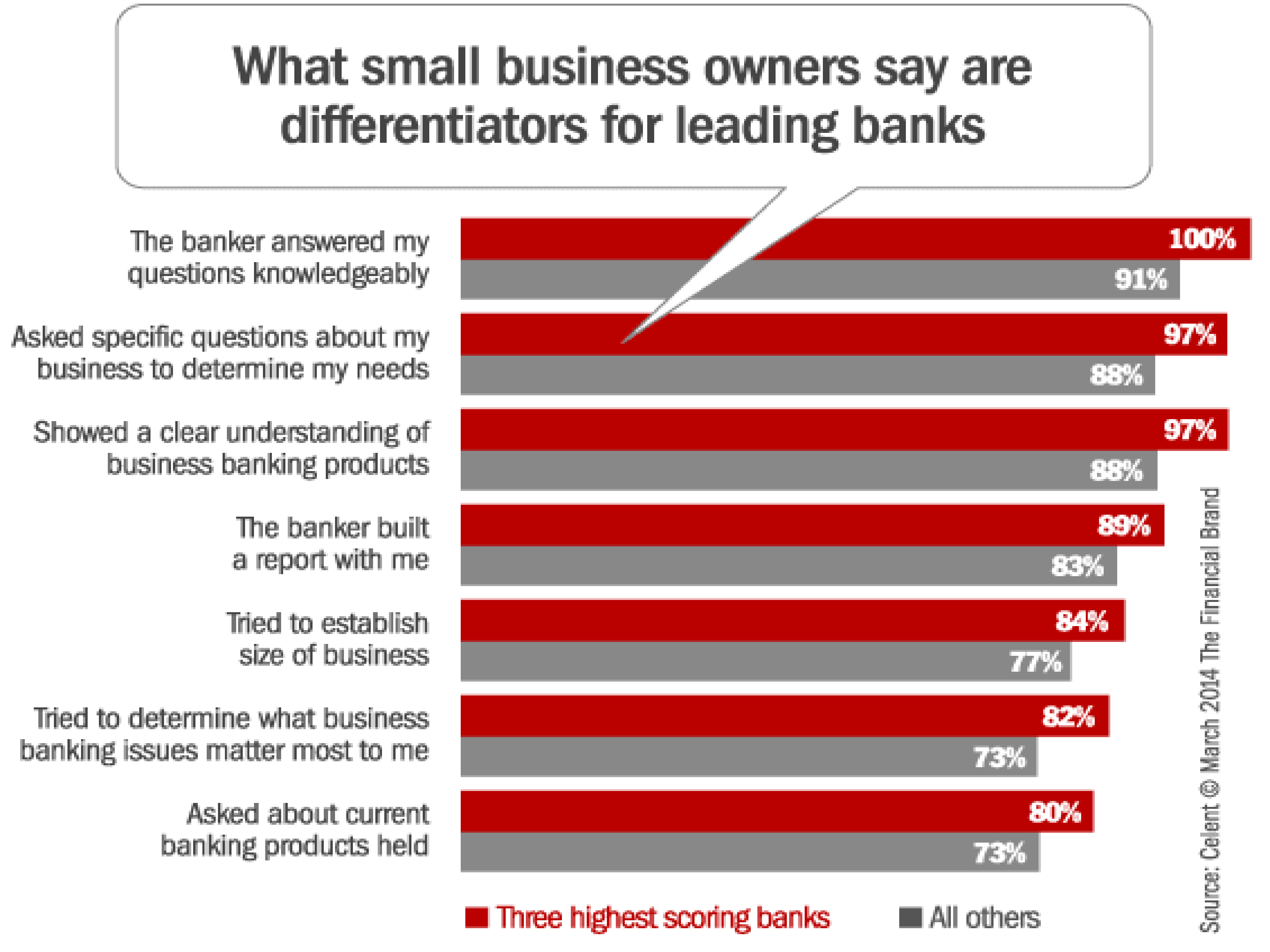


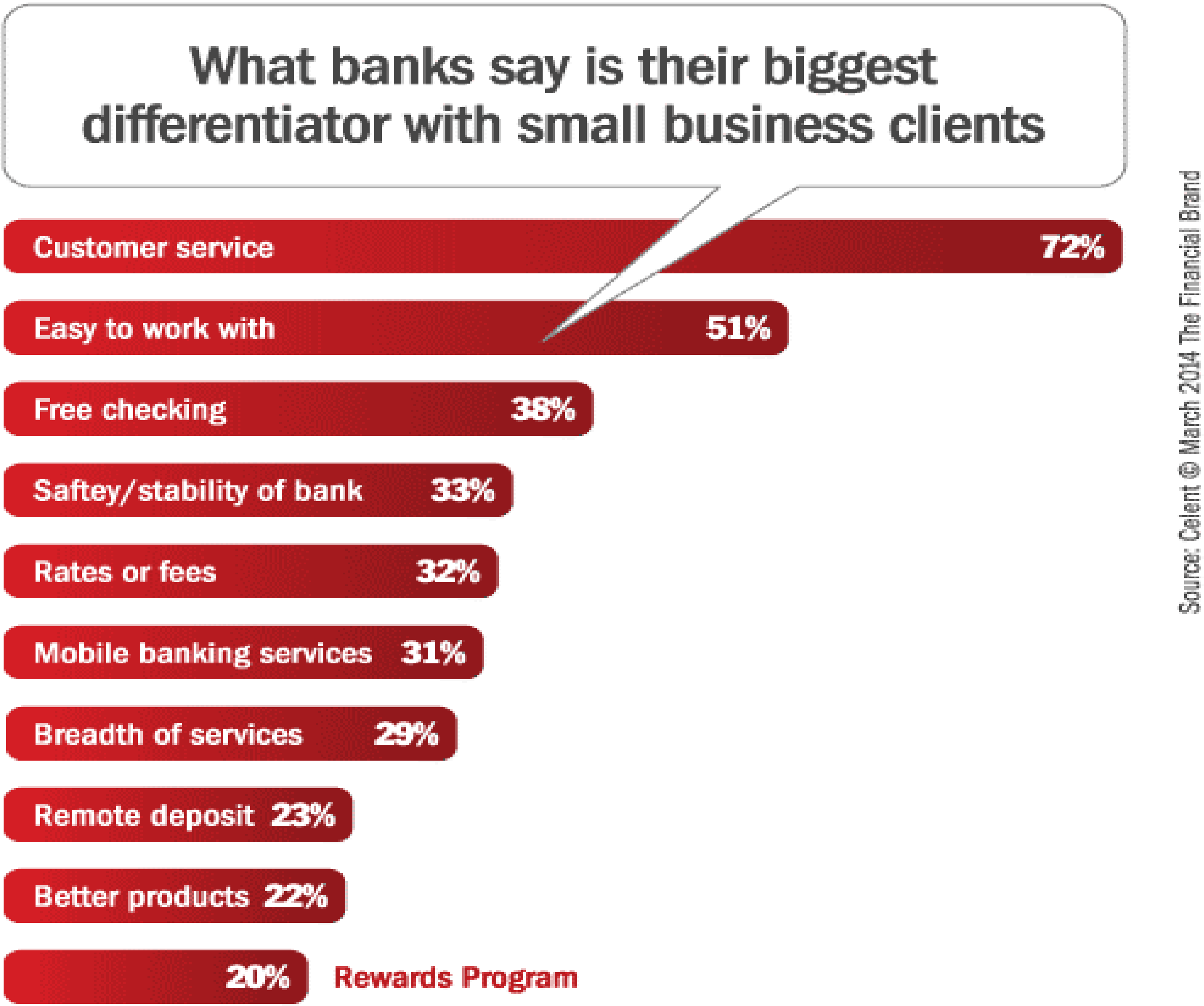
Differentiation Strategies:

- Defense against 5 competitive forces:
  - Competitors - Decreases rivalry due to brand loyalty and resulting lower sensitivity to price.
  - Suppliers - Allows an increase in price margins (customers willing to pay more, can withstand supplier price changes).
  - Buyers - Removes buyer power due to a lack of comparative alternatives.
  - New-entrants & Substitutes - Requires others to overcome customer loyalty and product uniqueness.

How Differentiation affects Cost strategies




What small business owners say are differentiators for leading banks
The banker answered my questions knowledgeably
100%
91%
Asked specific questions about my business to determine my needs
97%
88%
Showed a clear understanding of business banking products
97%
88%
The banker built a report with me
89%
83%
Tried to establish size of business
84%
77%
Tried to determine what business banking issues matter most to me
82%
73%
Asked about current banking products held
80%
73%
Three highest scoring banks
All others
Source: Celent © March 2014 The Financial Brand


What banks say is their biggest differentiator with small business clients
Customer service 72%
Easy to work with 51%
Free checking 38%
Saftey/stability of bank 33%
Rates or fees 32%
Mobile banking services 31%
Breadth of services 29%
Remote deposit 23%
Better products 22%
20% Rewards Program
Source: Celent © March 2014 The Financial Brand

3) Focus strategies

- Focused Cost Leadership strategies:
  - Requirements for usage similar to low-cost strategies.
  - Defense against the five forces similar to differentiation strategies.
  - Examples: Rally's, Martin Brower, White Castle.

    - Rally's (no frills service, limited menu, no dine-in).
    - Martin Brower- 3rd largest food supplier, serves fast food chains by:

      Gearing to their purchasing cycles.
      Locating warehouse locations based on their locations.
      Stocking products only for these 8 firms
      Meeting their specialized needs.

Focus Strategy

- The focus strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation.
- The premise is that the needs of the group can be better serviced by focusing entirely on it.
- A firm using a focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly.
- Because of their narrow market focus, firms pursuing a focus strategy have lower volumes and therefore less bargaining power with their suppliers
- However, firms pursuing a differentiation-focused strategy may be able to pass higher costs on to customers since close substitute products do not exist.

Focus strategy means Segmentation strategy

Focus on narrowly defined market segment by being the low-cost leader, differentiating, or both

Many sub-segments today

Need distinctive product

Specific geography, ethnicity, etc.

Market segmentation tactics…

Focused strategy

Serving a limited number of segments

Serving just one segment

- **Standardization strategy**
  - Producing a standardized product
  - Ignoring different segments

- **Segmentation strategy**
  - Producing different offerings for different segments
  - Serving many segments or the entire market

Comparison of Market segmentation approaches

Standardization strategy	Segmentation strategy	Focused strategy

• Associated with lower costs than a segmented strategy
• Attempts to attain economies of scale through high sales volume
	• Involves customization of product offerings, which drive up costs as:
	  • achieving economies of scale is difficult.
	  • production and delivery costs tend to be high.
		• Have a higher cost structure as:
		  • new product features and functions need to be added.
		  • attaining economies of scale is difficult.

Focus Strategy Examples

- Rolls Royce -Luxury automobiles
- Katz Insurance - High risk drivers
- Apple Computer - Desktop publishing
- Motel 6 - price-conscious travelers
- University of Baltimore - cost and quality for well-informed professionals.

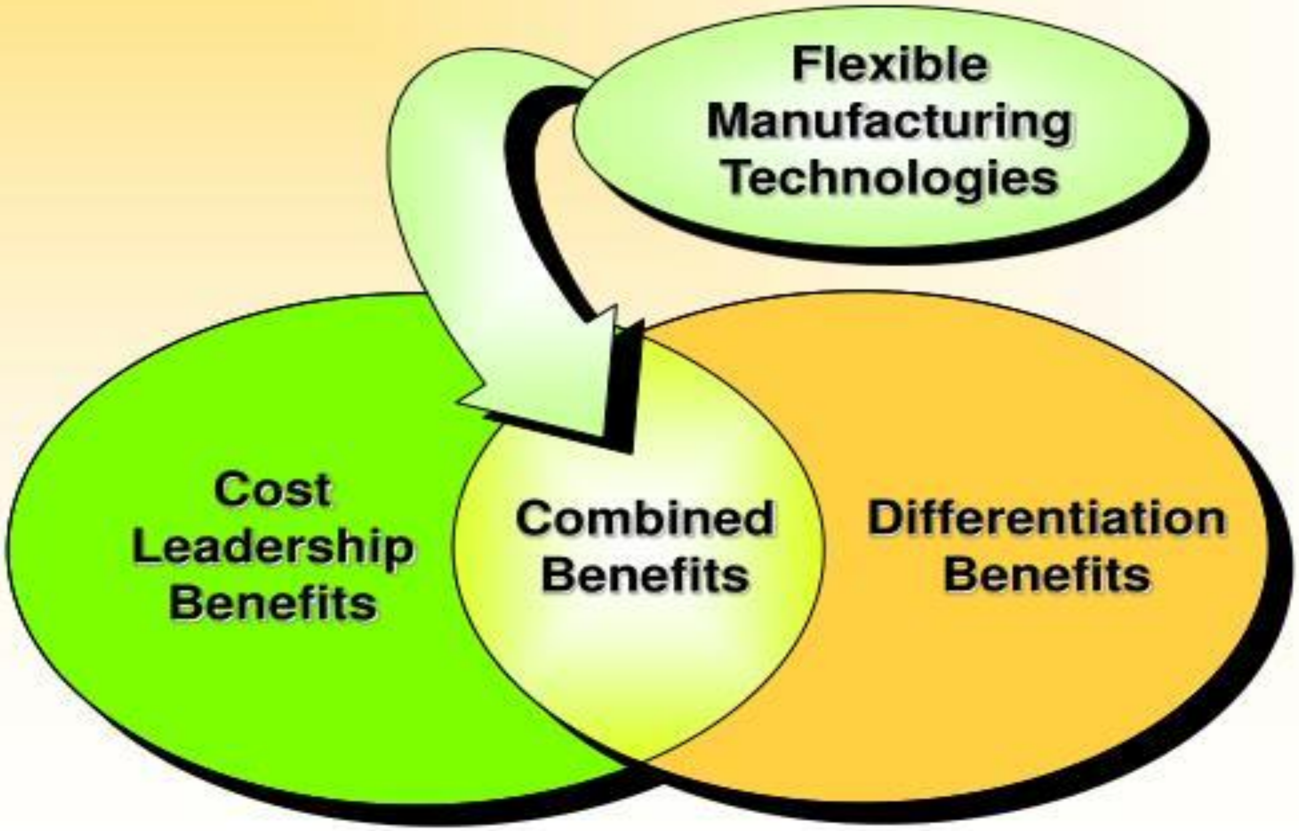
Examples of Focus Strategy

- ***Focus Low-cost***
  - **Ikea**: Young furniture buyers who want style at low cost (price sensitive and low service customer groups)
  - **Southwest Airlines**: Short-haul, point-to-point service between midsize cities & secondary airports in large cities (low pricing & low service)
- ***Focus Differentiation***
  - **Rolex**: Serve highest end of wristwatch market (premium pricing & image)
  - **Rolls-Royce**: Serving luxurious end of automobile market (premium pricing & image)

4) Combining Differentiation & Low cost Strategies

Choosing a Generic Business-Level Strategy (Continued)

Cost Leadership and Differentiation



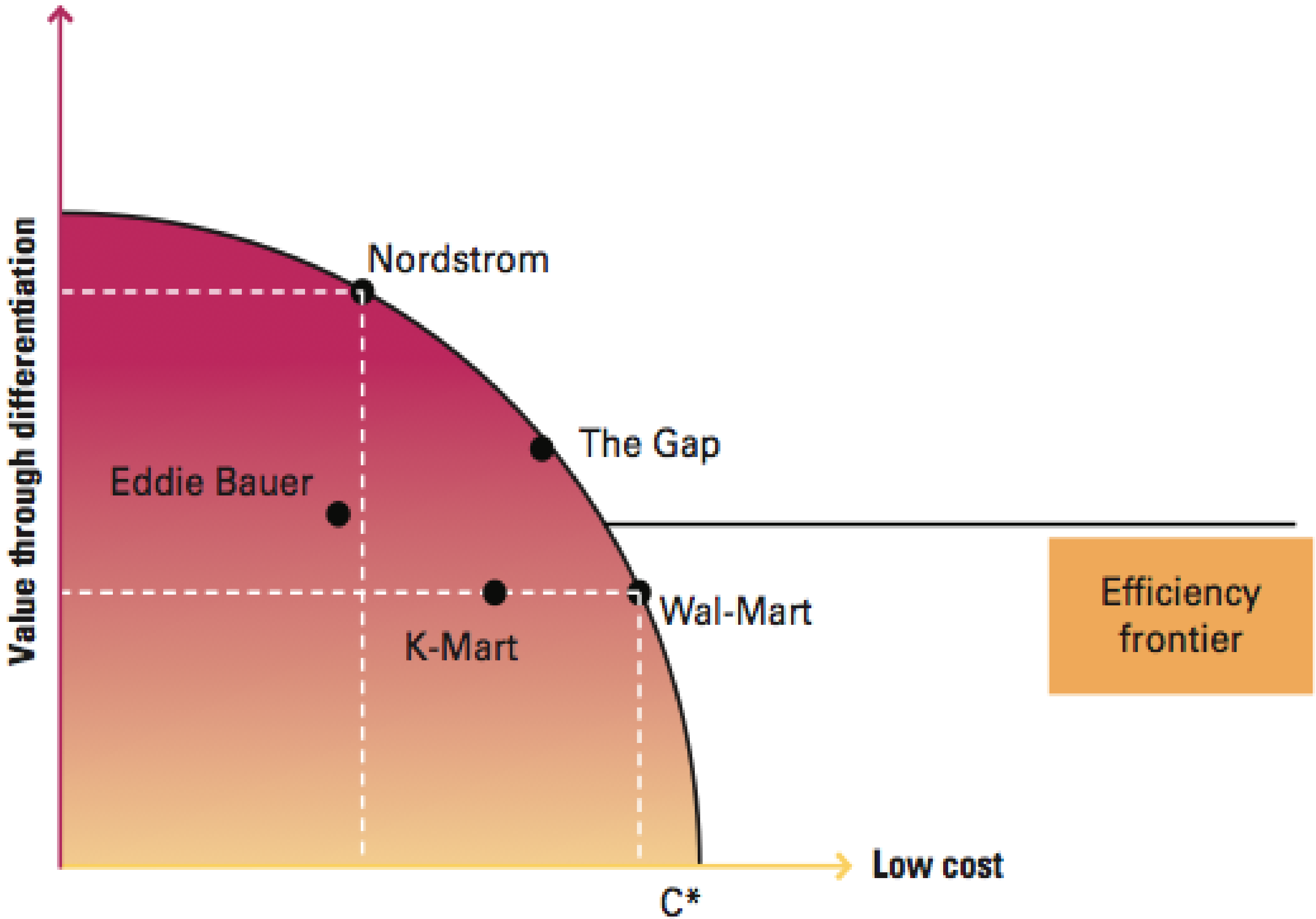
Low cost	Differentiation
• Enables a company to: – *gain a SSCA* – *undercut rivals on price* – *gain market share* – *maintain or increase Π*	• Enables a company to: – *charge a premium price* – *increase demand* – *capture market share* • Distinguishing oneself from rivals by offering something that they find hard to match . • Product differentiation is achieved through: – *superior reliability, functions, and features.* – *better design, branding, point-of-sale service, after sales service, and support.*

The differentiation-low cost tradeoff

- **Efficiency frontier**
  - *Shows all the positions a company can adopt with regard to differentiation and low cost.*
  - *Has a convex shape because of diminishing returns.*
- Multiple positions on the differentiation-low cost continuum are viable.
  - Have enough demand to support an offering.

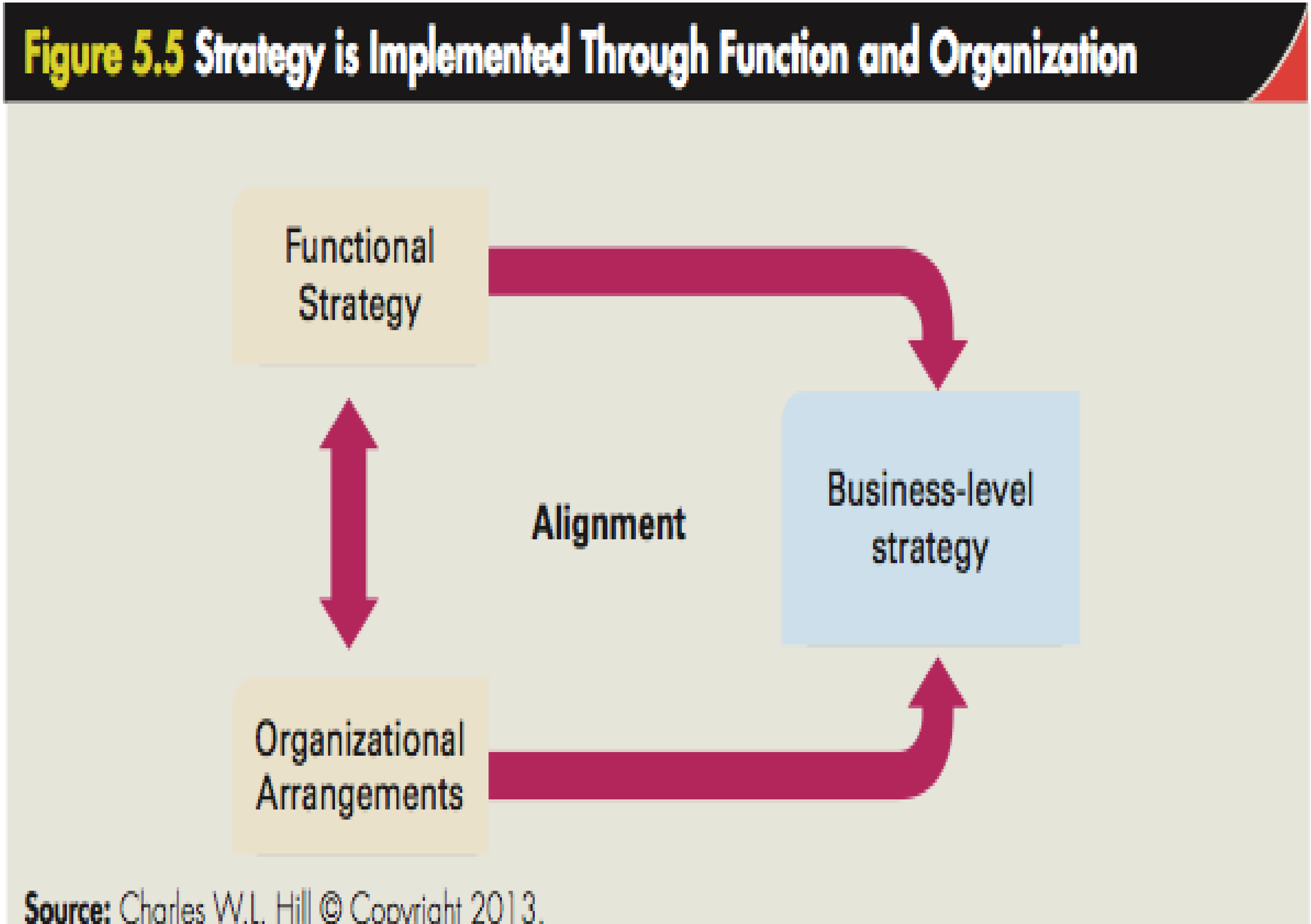
- To get to the efficiency frontier, a company must:
  - pursue the right functional-level strategies
  - be properly organized
  - ensure its business-level strategy, functional-level strategy, and organizational arrangement align with each other

Figure 5.2 The Differentiation–Low Cost Tradeoff



Source: Charles W.L. Hill © Copyright 2013.

5) Coordinating Functional & Business Strategies



Lowering costs through functional strategy and organization

- Achieve economies of scale and learning effects
- Adopt lean production and flexible manufacturing technologies
- Implement quality improvement methodologies to produce reliable goods
- Streamline processes
- Use information systems to automate business process

- Implement just-in-time inventory control systems
- Design products with a focus on reducing costs
- Increase customer retention
- Ensure that the organization's structure, systems, and culture reward actions that lead:
  - *higher productivity*
  - *greater efficiency*

Differentiation through functional-level strategy and organization

- Customize product offering and marketing mix to different market segments
- Design product offerings that have a high perceived quality regarding their:
  - *functions*
  - *features*
  - *performance*
  - *reliability*
- Handle and respond to customer queries and problems promptly

- Focus marketing efforts on:
  - *brand building*
  - *perceived differentiation from rivals*
- Ensure employees act in a manner consistent with the company's image
- Create the right organizational structure, controls, incentives, and culture
- Ensure that the control systems, incentive systems, and culture align with the strategic thrust

Summary

Generic Business-Level Strategies

Approach to the market	Low cost	Differentiation
Broad	Broad low cost Wal-Mart	Broad differentiation Toyota Coca Cola
Narrow (Niche)	Focus low cost Costco Southwest Airline	Focus differentiation Nordstrom

Strategic Emphasis

Business-level strategy, industry, and competitive advantage

Low-cost companies

- Charge low prices and still make profits
- Absorb cost increases from suppliers
- Offer deep discount prices for buyers

Differentiated companies

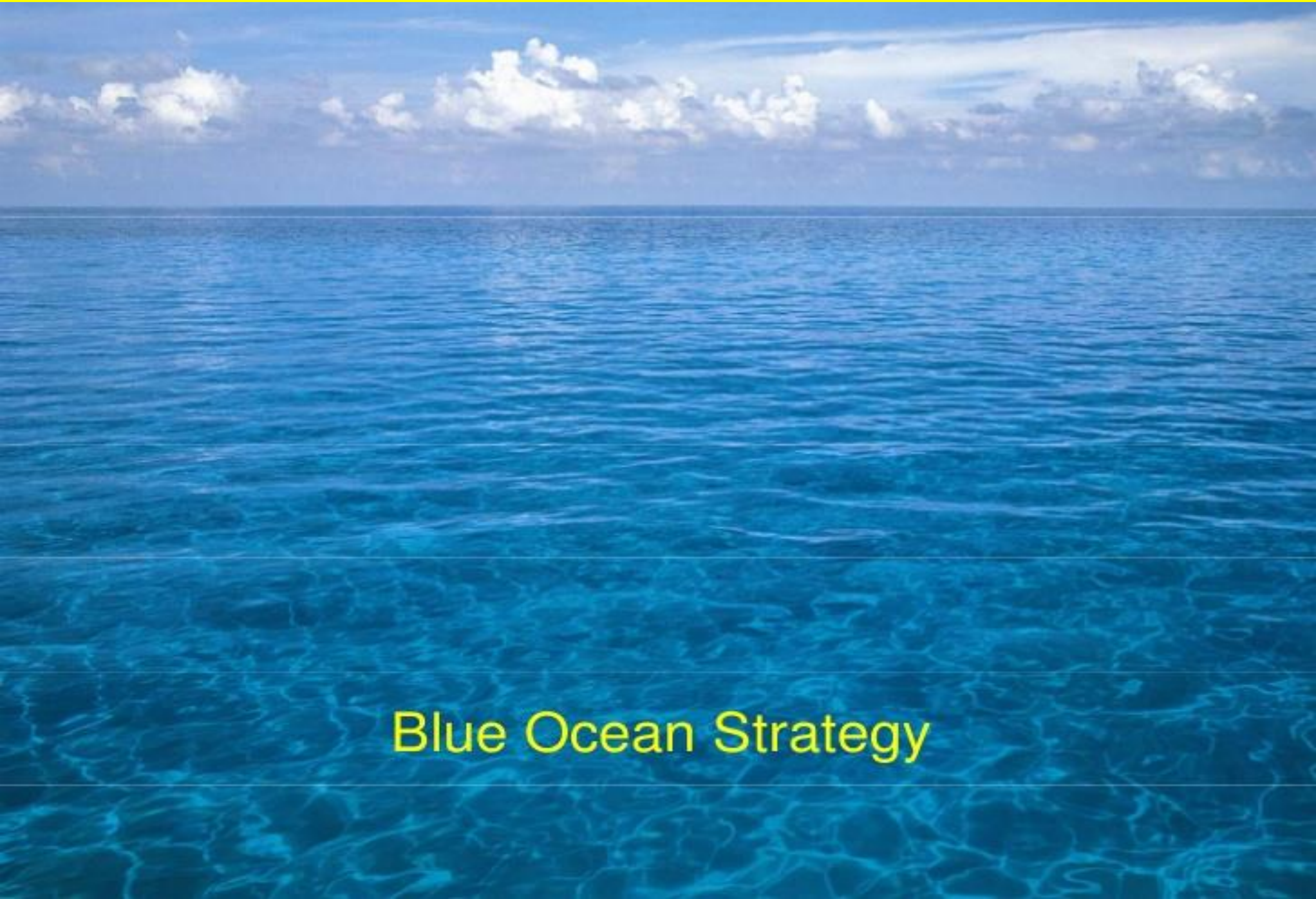
- Withstand pricing pressure from powerful buyers and increase prices without buyer resistance
- Absorb price increases from suppliers and pass them to customers without losing market share
- Withstand substitute goods, as a result of brand loyalty

IV) BLUE OCEAN

Strategies

A) Blue ocean strategy

What is a....Blue ocean strategy



Blue ocean strategy = First mover advantage

BLUE OCEAN STRATEGY

Try to think in new market ideas,
Try to swim in new blue oceans.

RED oceans

Known market space

Many competitors

Fight for market share

BLUE oceans

Unknown market space

Few competitors

Create market share

Cutthroat competition turns the ocean bloody

New market makes competition irrelevant

Blue ocean strategy

- Blue Ocean:
  - Wide open market space - a company can chart its own course
- **Product offering** through:
  - Adding value (i.e. innovation)
  - Cutting costs
    - **Create a new market space**

- To redefine its market and create a new business-level strategy, a company must:
  - **eliminate factors that rivals take for granted**, and reduce costs.
  - **reduce certain factors below industry standards**, and lower costs.
  - **raise certain factors above industry standards**, and increase value.
  - **create factors that rivals do not offer**, and increase value.

Red Ocean Blogs

(bloody with competition)

Compete in existing markets

Beg for reader attention

Slow and/or stagnant growth

Blue Ocean Blogs

(uncontested space)

Take a unique aproach and stand out

Are free from competition

Capture a new demand

Principles Of Blue Ocean Strategy

Core/Formulation Principles	Formulation Risks
Reconstruct market boundaries	Search Risk
Focus on the big picture, not the numbers	Planning Risk
Reach beyond existing demand	Scale Risk
Get the strategic sequence right	Business Model Risk

Execution Principles	Execution Risks
Overcome key organizational hurdles	Organizational Risk
Build execution into strategy	Management Risk

The formulation principles and execution Principles, work in tandem to minimize risks and maximizing opportunities.

Six Principles of Blue Ocean Strategy

Formulation Principles

1. Reconstruct market boundaries
2. Focus on the big picture, not the numbers
3. Reach beyond existing demand
4. Get the strategic sequence right

Execution Principles

1. Overcome key organizational hurdles
2. Build execution into strategy

Reconstruct Market Boundaries

- There are 6 pathways to reconstruct the market boundaries

1. RECONSTRUCT MARKET BOUNDARIES – CONCEIVING NEW MARKET SPACE

By thinking across conventional boundaries of competition, you can see how to make convention-altering, strategic moves that construct established market boundaries and create Blue Oceans.

From Head-to-Head Competition to Blue Ocean Creation

	Head-to-Head Competition		Blue Ocean Creation
INDUSTRY	Focus on rivals within the industry	⇨	Looks across alternate industries
STRATEGIC GROUP	Focuses on competitive position within strategic group	⇨	Looks across strategic groups within the industry
BUYER GROUP	Focuses on better serving the buyer group	⇨	Redefines the industry buyer group
SCOPE OF PRODUCT OR SERVCIES	Focuses on maximizing the value of product and service offerings within the bounds of its industry	⇨	Looks across to complementary product and service offerings
FUNCTIONAL-EMOTIONAL ORIENTATION	Focuses on improving price performance within the functional-emotional orientation of its industry	⇨	Rethinks the functional-emotional orientation of its industry
TIME	Focuses on adapting to external trends as they occur	⇨	Participates in shaping external trends over time

Blue ocean Strategy

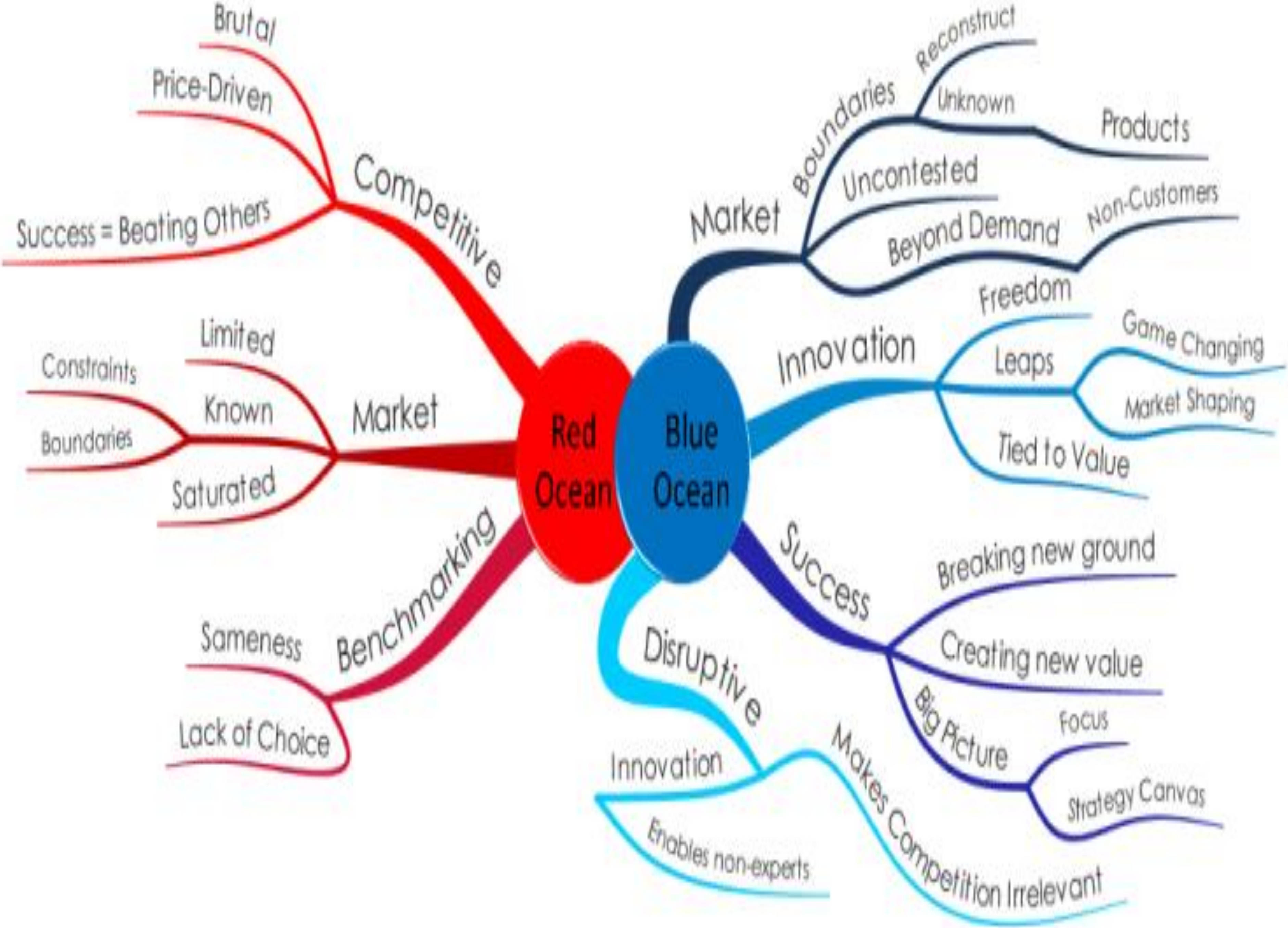
The science of making competition irrelevant

So… What are You?

Avoid Sharks……

So… Are you Unique or strive for??

	Conventional Thinking	Blue Ocean Thinking
Industry	Industry conditions are given – compete in existing market space	Industry conditions can be shaped – create uncontested market space
Strategy	Companies must build competitive advantages to beat competition	Make competition irrelevant
Market	Exploit existing demand	Create and capture new demand
Resources	Make the value-cost trade-off	Break the value-cost trade-off
Organization	Align the whole system of a firm's activities with its strategic choice of differentiation or low cost	Align the whole system of a firm's activities in pursuit of differentiation and low cost
Offerings	Maximizing the offering's value within industry boundaries	Offering buyers the total solution that transcends the industry


Red Ocean
Competitive
Brutal
Price-Driven
Success = Beating Others
Market
Limited
Known
Saturated
Constraints
Boundaries
Benchmarking
Sameness
Lack of Choice
Blue Ocean
Market
Boundaries
Reconstruct
Unknown
Products
Uncontested
Beyond Demand
Non-Customers
Innovation
Freedom
Leaps
Game Changing
Market Shaping
Tied to Value
Success
Breaking new ground
Creating new value
Big Picture
Focus
Strategy Canvas
Disruptive
Innovation
Enables non-experts
Makes Competition Irrelevant

Profit Model of Blue Ocean Strategy

The profit model of blue ocean strategy shows how value innovation typically maximizes profit by using the three levers of strategic price, target cost, and pricing innovation.

V) INNOVATION

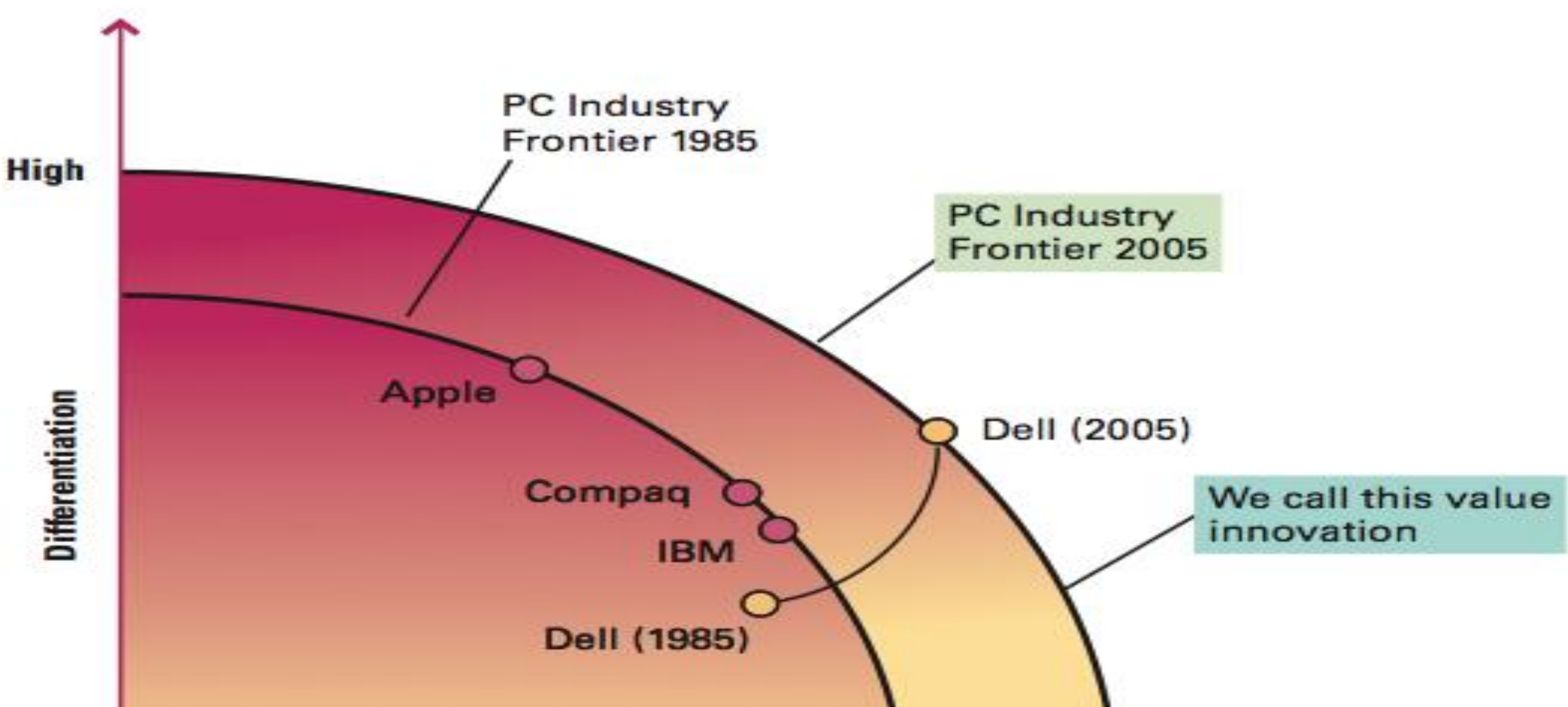
Strategies

Creating Value via INNOVATION

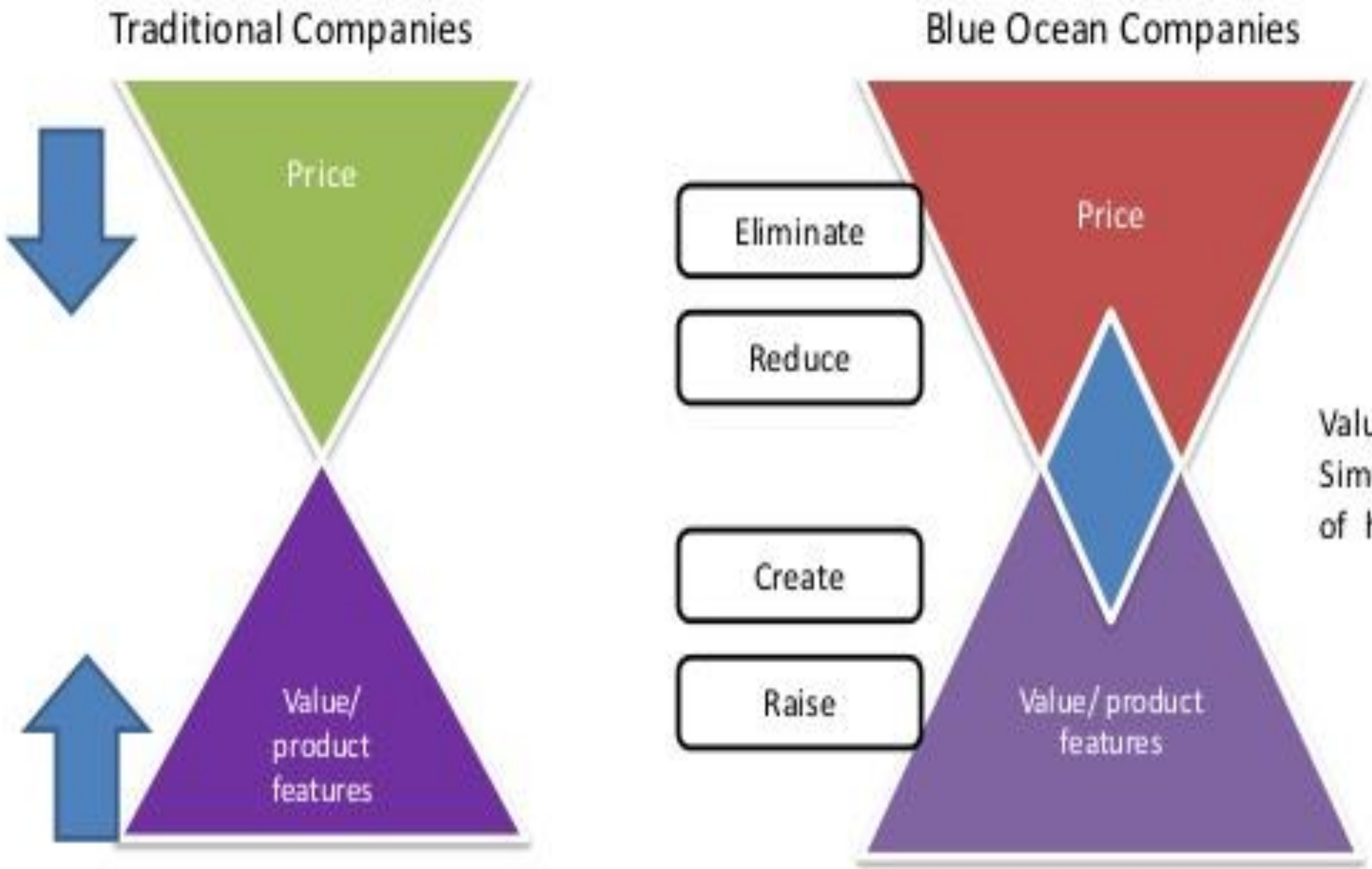
Value via Innovation

- Innovations push out the efficiency frontier in an industry
  - *enabling greater value to be offered through superior differentiation*
  - *at a lower cost than was thought possible……*
- Enable a company to outperform its rivals for many years.

Figure 5.3 Value Innovation in the PC Industry



Value Innovation



Value Innovation –
Simultaneous pursuit
of high value & Low cost

Characteristics of a good Value innovation Strategy

FOCUS: Not to diffuse efforts

DIVERGENCE: The shape of the

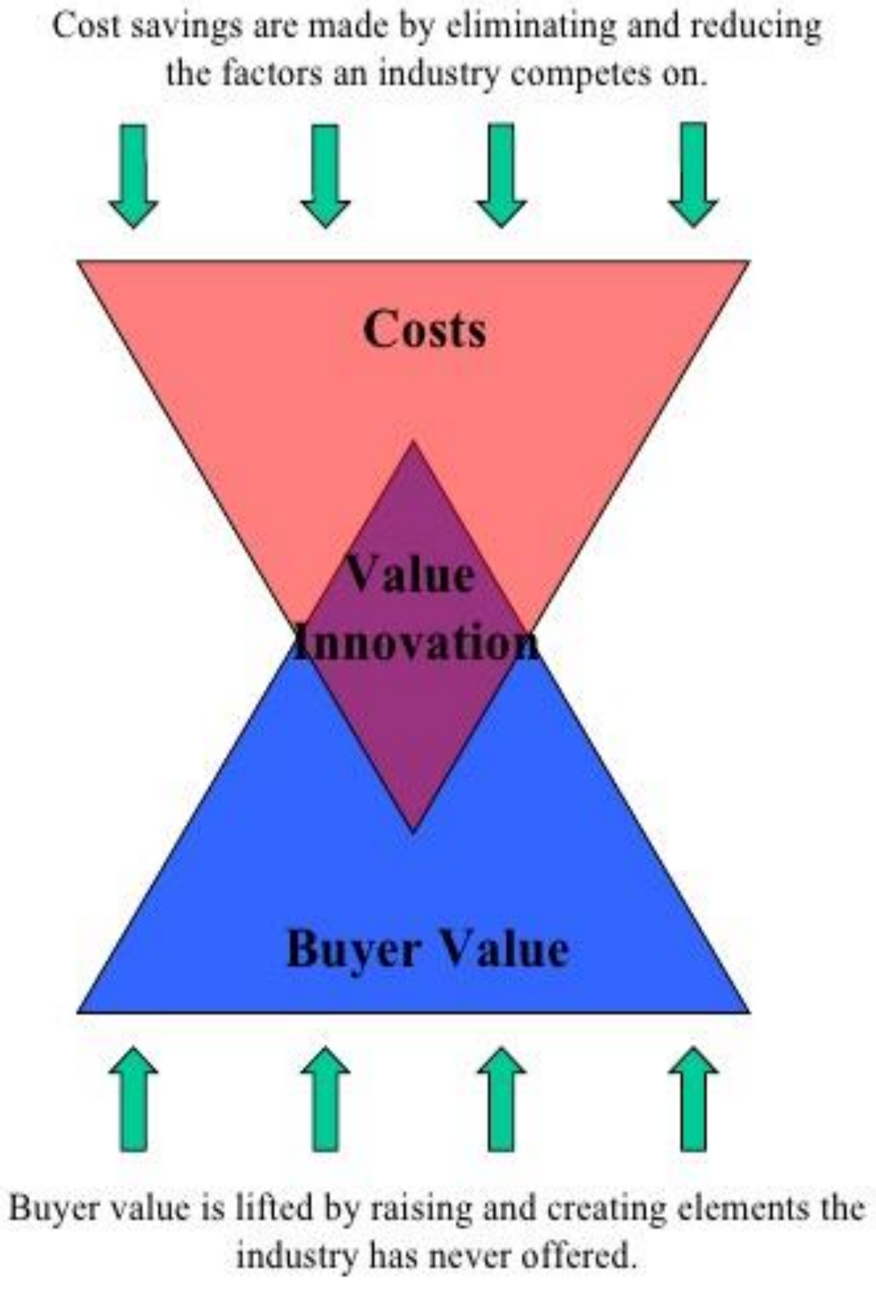
Compelling Tag line : The value

Value Innovation

Value innovation places equal emphasis on value and innovation.

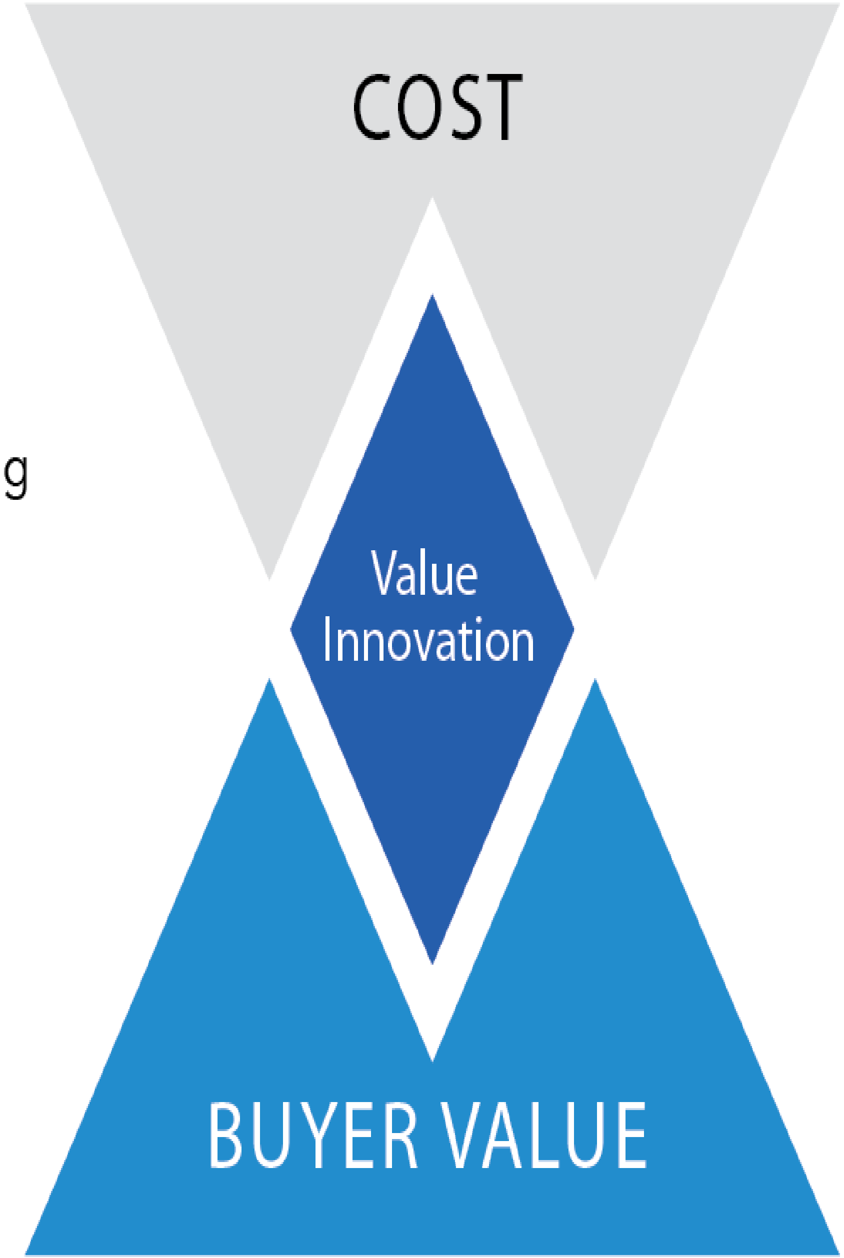
Value innovation is a new way of thinking about and executing strategy that results in the creation of a blue ocean.

The creation of blue oceans is about driving costs down while simultaneously driving value up for buyers.



Cost savings are made by eliminating and reducing the factors an industry competes on.

Buyer value is lifted by raising and creating elements the industry has never offered.



Barriers to Imitation

Does not Make Sense based on Conventional Strategic Logic

NBC, CBS and ABC rediculed the idea of 24x7 real time news without star broadcasters

Brand Image Conflicts

Chanel, CD, etc could not imitate Body Shop as it would signal an invalidation of their current business models

Economies of Scale

High volume generated by a value innovation leads to rapid cost advantages

Political, Operational and Cultural Changes

Major revisions in routing planes, retraining, changing marketing/pricing/culture. Took MAS 6 years to come up Firefly

1st to Market

When a company offers a leap in value, it rapidly earns brand buzz and a loyal following in the marketplace

Natural Monopoly

Size of market does not make sense to support another player

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