Strategic Management

CA Inter: May 24

Chapter 3

I am really proud of myself. Because I'm on, realizing the dreams I set for myself. I struggled to pay fees for coaching class. Now, as I empower many of you to access the finest classes at the most affordable rates, I see the true impact of my CA Degree.

Behind the creation of these lectures and notes lie countless sleepless nights and hard work. I hope you will stay focussed and try your best to clear your exams!!

CA Himanshu

Introduction

Strategic Analysis is equally important when it comes to internal environment assessment. Internal environment include:

- People: Individuals, groups, stakeholders.
- Processes: Input, throughput, output.
- Physical Infrastructure: Space, equipment, working conditions.
- Administrative System: Lines of authority, power, responsibility, accountability.
- Organizational Culture: Intangible aspects like relationships, philosophy, values, ethics

Understanding Key Stakeholders

Stakeholders are individuals and entities with a stake in a firm's success and the ability to impact it. This concept contrasts with the traditional view of the firm solely as an extension of owners and shareholders.

1. They have the power to influence the organization's strategy and performance.
2. Stakeholders include employees, shareholders, investors, suppliers, customers, regulators, and more.
3. Stakeholders include employees, shareholders, investors, suppliers, customers, regulators, and more.
4. Stakeholders, whether internal or external, influence or are impacted by the business or corporate strategy.

Example of Key Stakeholders and their requirements:

Stakeholders	Requirements
Shareholders	♦ Innovation and continuous creative content ♦ Total shareholder return (RoI) ♦ Corporate social responsibility ♦ Top rankings of the organisation ♦ Highest market share
CEO and Board of Directors	♦ Prestige ♦ Market share ♦ Revenue and profit growth ♦ Market rankings
Major Vendors (Production Houses)	♦ Growth ♦ Stability of ordering ♦ Stable margins
Consumers (Viewers)	♦ New content - Innovation ♦ Better deals - Pricing Benefits ♦ Value for money ♦ Continuous supply
Employees	♦ Wages and benefits ♦ Stability of employment ♦ Pride of working for a reputed organisation

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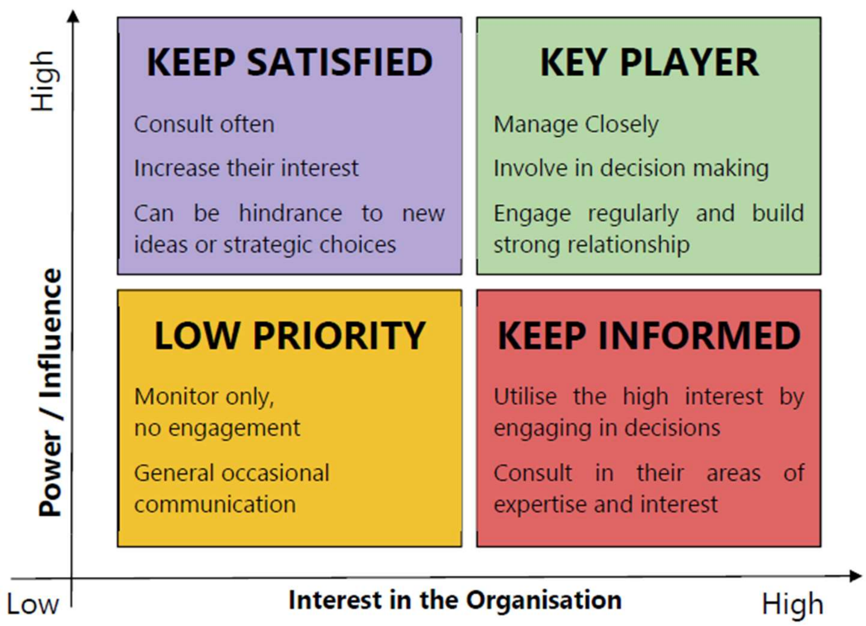
Mendelow's Matrix

The Mendelow Stakeholder matrix (also known as the Stakeholder Analysis matrix and the Power-Interest matrix) is a simple framework to help manage key stakeholders.

1. Mendelow's Matrix aids in managing stakeholders by providing clarity.
2. Helps in understanding the influence (Power) and interest of stakeholder groups.
3. Stakeholder groups are analysed based on Power (ability to influence strategy or resources) and Interest (level of interest in the organization's success).
4. Not all stakeholders have equal Power and Interest.
5. Some stakeholders possess more Power but may have less Interest, and vice versa. Example:
    - A significant shareholder likely has high Power and high Interest.
    - A major competitor may have high Power to impact strategy but potentially less Interest in the rival organization's success



In the above figure, we see categorisation of stakeholders into four groups by Mendelow's;

Keep Satisfied Stakeholders: High Power, Less Interested People - Organisation should put in enough work with these people to keep them satisfied with their intended information on a regular basis. For example, banks, government, customers, etc.

Key Players Stakeholders: High power, highly interested people - Organisation's aim should be to fully engage this group of stakeholders, making the greatest efforts to satisfy them, take their advice, build actions and keep them informed with all information on a regular basis. For example, Shareholders, CEO, Board of Directors, etc.

Low Priority Stakeholders: Low Power, Less Interested People - Organisation should only monitor them with no actions to satisfy their expectations. Strategically, minimal efforts should be spent on this group of stakeholders while keeping an eye to check if their levels of interest or power change. For example, business magazines, media houses, etc.

Keep Informed Stakeholders: Low power, highly interested people - Organisation should adequately inform this group of people and communicate with them to ensure that no major issues arise. This audiences can also help with real time feedbacks and areas of improvement for an organisation. For example, employees, vendors, suppliers, legal experts, etc.

Memory Aid:

1. Keep Satisfied: Think of keeping them content with regular information.
2. Key Players: Engage fully, satisfy, take advice, and keep them well-informed.
3. Low Priority Stakeholders: Monitor without significant efforts; minimal attention unless power or interest changes.
4. Keep Informed: Adequately inform and communicate; leverage for real-time feedback and improvement.

Strategic Drivers

Strategic drivers, a crucial aspect of internal analysis, focus on evaluating a business's current performance by identifying what sets it apart from competitors.

This involves analysing key markets, customers, products/services, channels, and the organization's competitive advantage. The interconnection between components, such as markets and products/services, highlights the complexity of this assessment.

The evaluation of current performance can be subjective, influenced by management's metrics and business approach, whether profit-driven, purpose-driven, or based on other metrics.

In general, the key strategic drivers encompass:

- Industry and markets,
- Customers, products/services, and
- Channels.

Industry and Markets

What is Market?

A market is defined as the sum total of all the buyers and sellers in the area or region under consideration. The value, cost and price of items traded are as per forces of supply and demand in a market.

The market may be a physical entity or may be virtual like e-commerce websites and applications. It may further be local or global, depending on which all countries the business sells its products in.

Is market the same for all businesses?

Market refers to all the buyers and sellers of a particular product/service and so it would be incorrect to say that market is the same for all businesses. Each business has its own set of customers i.e. market and more so, each product within a business has its own market.

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For example, for a FMCG brand selling Shampoos, Dairy Products, Flours, Washing Powder, etc. - each product line will have a separate market to cater to and therefore build strategies specific to the market of concern.

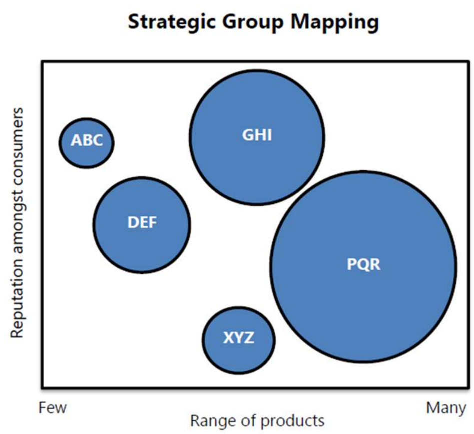
Analysing Industry and Markets

Industry and market analysis is extremely important to identify one's position as compared to the competitors, who can be of equal size and value, or bigger in size and value or even smaller and newer. A tool used for this is called - Strategic Group Mapping.

A strategic group consists of those rival firms which have similar competitive approaches and positions in the market. Companies in the same strategic group can resemble one another in any of the several ways – have comparable product-line breadth, same price/quality range, same distribution channels, same product attributes, identical technological approaches, offer similar services and technical assistance and so on.

The procedure for constructing a strategic group map and deciding which firms belong in which strategic group is as follows:

1. Identify Competitive Characteristics: Variables include price/quality range, geographic coverage, degree of vertical integration, product-line breadth, use of distribution channels, and degree of service offered.
2. Plot on a Two-Variable Map: Plot firms on a map using pairs of differentiating characteristics.
3. Assign to Strategic Groups: Firms in a similar strategy space are assigned to the same strategic group.
4. Draw Proportional Circles: Draw circles around each strategic group, with sizes proportional to the group's share of total industry sales revenues.



Customers

Understanding the different types of customers to whom the organisation's products/services are sold or provided, is not only important but also the first step in deciding the product/service.

Different customers may have different needs and require different sales models or distribution channels.

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- Understanding key customers helps identify areas for improvement and business focus.
- Understanding customer trends and profitability are crucial for profit generation.
- Data collection allows identification of issues and pursuit of growth in targeted areas.
- Customer buys, consumer uses. Example: Parent as the customer buying stationery, kids as consumers using it.
- From a pricing perspective - the customer is of more importance and from value creation and design/usability, consumer needs to be the kept at the center of decision making.

Customer vs Consumer:

Consumers are the ones who finally use a product/service, while customers are the buyers of that product. A customer can be a consumer and vice versa. But for strategy teams especially marketing teams it is important to understand the customer and consumer separately.

Product/Services

In this component of the strategic drivers' analysis, business identifies the key products/ services that the organisation offers and how those products/services are performing. It attempts to answer the general question: What business are we in and what should be done to win over competition in each product/service we serve.

- Strategies are needed for managing existing product over time, adding new ones and dropping failed products.
- Strategic decisions must also be made regarding branding, packaging and other product features such as warranties.

For a new product, pricing strategies for entering a market need to be designed and for that matter at least three objectives must be kept in mind:

- Have customer-centric approach while making a product.
- Produce sufficient returns through a reasonable margin over cost.
- Increasing market share.

Product Marketing Strategies:

1. Social Marketing: It refers to the design, implementation, and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group to bring in a social change. For instance, the publicity campaign for prohibition of smoking in Delhi explained the place where one can and can't smoke and also indicates that smoking is injurious to health.

2. Augmented Marketing: This type of marketing includes additional customer services and benefits that a product can offer besides the core and actual product that is being offered. It can be in the form of introduction of hi-tech services like movies on demand, online computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.

3. Direct Marketing: Marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response. Direct marketing includes catalogue selling, e-mail, telecomputing, electronic marketing, shopping, and TV shopping.

4. Relationship Marketing: The process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholders. For example, Airlines offer special lounges at major airports for frequent flyers. Thus, providing special benefits to select customers to strengthen bonds. It can go a long way in building relationships.

5. Services Marketing: It is applying the concepts, tools, and techniques, of marketing to services. Services is any activity or benefit that one party can offer to another that is essentially intangible. This marketing requires different marketing strategies since it has peculiar characteristics of its own such as inseparability, variability etc.

6. Person Marketing: People can also be marketed. Person marketing consists of activities undertaken to create, maintain or change attitudes and behaviour towards particular person. For example, politicians, sports stars, film stars, etc. i.e., market themselves to get votes, or to promote their careers.

7. Organization Marketing: It consists of activities undertaken to create, maintain, or change attitudes and behaviour of target audiences towards an organization. Both profit and non-profit organizations practice organization marketing.

8. Place Marketing: Place marketing involves activities undertaken to create, maintain, or change attitudes and behaviour towards particular places say, marketing of business sites, tourism marketing.

9. Enlightened Marketing: It is a marketing philosophy holding that a company's marketing should support the best long-run performance of the marketing system that is beyond the prevailing mindset; its five principles include customer-oriented marketing, innovative marketing, value marketing, sense-of-mission marketing, and societal marketing.
10. Differential Marketing: It is a market-coverage strategy in which a firm decides to target several market segments and designs separate offer for each. For example, Hindustan Unilever Limited has Lifebuoy, Lux and Rexona in popular segment and Dove and Pears in premium segment.

11. Synchro-marketing: When the demand for a product is irregular due to season, some parts of the day, or on hour basis, causing idle capacity or overworked capacities, synchro-marketing can be used to find ways to alter the pattern of demand through flexible pricing, promotion, and other incentives. For example, products such as movie tickets can be sold at lower price over weekdays to generate demand.

12. Concentrated Marketing: It is a market-coverage strategy in which a firm goes after a large share of one or few sub-markets. It can also take the form of Niche marketing.

13. Demarketing: It includes marketing strategies to reduce demand temporarily or permanently. The aim is not to destroy demand, but only to reduce or shift it. This happens when there is overfull demand. For example, buses are overloaded in the morning and evening, roads are busy for most of times, zoological parks are over-crowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand.

Memory Aid:

Services Marketing: Some
Augmented Marketing: Aunty
Synchro-marketing: Sell
Place Marketing: Pizza
Direct Marketing: Daily
Person Marketing: People
Enlightened Marketing: Regularly
Relationship Marketing: Eat
Organization Marketing: Over there
Concentrated Marketing: Once C
Differential Marketing: D
Demarketing: D came

Channels

Channels are the distribution system by which an organisation distributes its product or provides its service.

To understand the concept of channels let us see some examples of how the following companies distribute their products and services:

1. **Lakme** - sells its products via retail stores, intermediary stores (like Nykaa,
2. **Westside, Reliance Trends**, as well as online mode like amazon, flipkart, nykaa online and its own website.
3. **Boat Headphones** - only online via e-commerce platforms like flipkart and amazon
4. **Coca Cola** - retail shops across the nation, in each district, each town as well as online mode via dunzo, blinkit, etc.

There are typically three channels that should be considered: sales channel, product channel and service channel.

1. The sales channel - These are the **intermediaries involved in selling the product through each channel and ultimately to the end user.** The key question is: Who needs to sell to whom for your product to be sold to your end user? For example, many fashion designers use agencies to sell their products to retail organisations, so that consumers can access them.

2. The product channel - The product channel focuses on the **series of intermediaries who physically handle the product on its path from its producer to the end user.** This is true of Australia Post, who delivers and distributes many online purchases between the seller and purchaser when using eBay and other online stores.

3. The service channel - The service channel refers to **the entities that provide necessary services to support the product, as it moves through the sales channel and after purchase by the end user. The** service channel is an important consideration for products that are complex in terms of installation or customer assistance. For example, a Bosch dishwasher may be sold in a Bosch showroom, and then once sold it is installed by a Bosch contracted plumber.

Why Channel Analysis is important?

Channel analysis is important when the business strategy is to scale up and expand beyond the current geographies and markets.

When a business plans to grow to newer markets, they need to develop or leverage existing channels to get to new customers.

Thus, analysis of channels that suit one's products and customers is of utmost importance.

Role of Resources and Capabilities: Building Core Competency

A core competence is a unique strength of an organization which may not be shared by others. Core competencies are those capabilities that are critical to a business achieving competitive advantage. In order to qualify as a core competence, the competency should differentiate the business from any other similar businesses. An organization's combination of technological and managerial know-how, wisdom and experience are a complex set of capabilities and resources that can lead to a competitive advantage compared to a competitor.

C.K. Prahalad and Gary Hamel introduced the concept of core competency, defined as collective organizational learning, encompassing diverse production skills and integrating multiple technologies.

Competency is viewed as a combination of skills and techniques rather than individual skill or separate technique. In core competencies, organizations typically combine various skills and techniques, allowing the entire organization to benefit from these diverse individual capabilities. Therefore, core competencies cannot be built on one capability or single technological know-how, instead, it has to be the integration of many resources.

They represent distinctive skills as well as intangible, invisible, intellectual assets and cultural capabilities. Cultural capabilities refer to the ability to manage change, the ability to learn and team working. Core Competence-based diversification reduces risk and investment and increases the opportunities for transferring learning and best practice across business units.

The human resource manager has a significant role to play in developing core competency of the firm. Core-competencies can be generated and maintained only through the effective management of human resources and their skills.

Core technological competencies are also corporate assets; and as assets, they facilitate corporate access to a variety of markets and businesses

According to C.K. Prahalad and Gary Hamel, major core competencies are identified in three areas:

- Competitor differentiation,
- Customer value, and
- Application to other markets

1. Competitor Differentiation:
   Competitor differentiation is a key condition for core competence. To qualify, a competence must be unique and challenging for competitors to imitate. This uniqueness provides a competitive edge, allowing the company to offer distinct products or services that competitors cannot easily replicate.

   Continuous improvement is crucial for maintaining this competitive advantage. Core competence can exist externally, but the company must excel significantly in its application. For instance, Tesla's success in electric vehicles, protected by patents, exemplifies core competence.

2. Customer Value:

   The second condition for core competence is customer value.

   - A product or service must **deliver a fundamental benefit** to the end customer to be considered a core competence.
   - This involves possessing all the necessary skills to provide essential benefits. The product or service should have a significant impact on the customer's decision to purchase.
   - If the customer chooses the company without experiencing this impact, the competence is not a core competence, and it won't impact the company's market position.
   - Consumer appreciation of the offered differentiation is crucial for the core competence to make sense.

3. Application to other markets:

   The last condition for core competence involves applying competencies to other markets.

   - Core competence must be applicable across the entire organization, not limited to a specific skill or expertise.
   - Even if a particular capability is crucial for business success, it won't be considered a core competence if it's not fundamental from the organization's overall perspective.
   - Core competence is a unique set of skills and expertise used throughout the organization to explore and exploit potential markets.

If the three above-mentioned conditions are met, then the company can regard it competence as core competency.

For example:

Marketing and Sales is a core competence of Hindustan Unilever Limited (HUL) This means that HUL has used its resources to form marketing related capabilities that in turn allow it to market its products in ways that are superior those of competitors. Because of this core competence, HUL is capable of launching new brands in the market successfully.

Wal-Mart focuses on lowering its operating costs. The cost advantage that Wal-Mart has created for itself has allowed the retailer to price goods lower than most competitors. The core competency in this case is derived from the company's ability to generate large sales volume, allowing the company to remain profitable with low profit margin.

Criteria for building a Core Competencies (CC)?

Four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies. Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies.

Valuable:

Capabilities become valuable when a firm can leverage them to seize opportunities or mitigate threats in its external environment. The firm generates value for customers by efficiently utilizing these capabilities to capitalize on opportunities.

Rare:

Core competencies are very rare capabilities and very few of the competitors possess this. Capabilities that are widespread among many rivals are unlikely to confer a competitive advantage to any single entity. Competitive advantage results only when firms develop and exploit valuable capabilities that differ from those shared with competitors.

Costly to imitate:

Costly to imitate means such capabilities that competing firms are unable to develop easily. For example, Intel has enjoyed a first-mover advantage more than once because of its rare fast R&D cycle time capability that brought SRAM and DRAM integrated circuit technology and brought microprocessors to market well ahead of the competitor. The product could be imitated in due course of time, but it was much more difficult to imitate the R&D cycle time capability.

Non-substitutable:

Capabilities that do not have strategic equivalents are called non-substitutable capabilities. This criterion emphasizes that for a capability to truly contribute to a competitive advantage, it must not have strategically equivalent resources that are both common and easy to imitate by competitors. For example, for years, firms tried to imitate Tata's low-cost strategy, but most have been unable to duplicate Tata's success. Tata has a unique culture and attracts some of the top talent in the

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industry. The culture and excellent human capital worked together in implementing Tata's strategy and are the basis for its competitive advantage.

The strategic value of capabilities increases as they become more difficult to substitute.

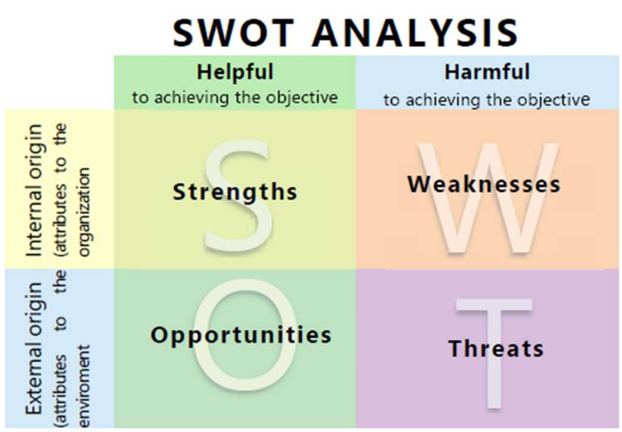
For example, Competitors are deeply aware about Apple's operating system's (iOS) successful model. However, to date, no competitor has been able to imitate Apple's capabilities. These are also protected through copyrights.

Combining External and Internal Analysis (Swot Analysis)

SWOT analysis is a tool used by organizations for evolving strategic options for the future. The term SWOT refers to the analysis of strengths, weaknesses, opportunities and threats facing a company. Strengths and weaknesses are identified in the internal environment, whereas opportunities and threats are located in the external environment.

- The primary objective is to provide a comprehensive understanding of factors influencing business decisions.
- SWOT analysis is used to discover recommendations and strategies, focusing on leveraging strengths and opportunities to address weaknesses and threats.
- Widely utilized by business owners for company growth and operational improvement.
- Can be performed periodically to assess the current business landscape and make necessary adjustments.

The benefit of this analysis is that it identifies the complex issues for an organisation and puts them into a simple framework. While on the other hand, one of the major criticisms of this tool is that it does not generally provide for evaluation of strengths, weaknesses, opportunities and threats in the competitive context.



SWOT Analysis Example

1. Strength: Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitor.
2. Weakness: A weakness is an inherent limitation or constraint of the organisation which creates strategic disadvantage to it.

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3. **Opportunity:** An opportunity is a favourable condition in the external environment which enables it to strengthen its position.
4. **Threat:** An unfavourable condition in the external environment which causes a risk for, or damage to the organisation's position.

SWOT Analysis for Internal or External Environment?

SWOT stands for Strengths, Weaknesses, Opportunities and Threats. Internal analysis is more focused on understanding the existing structure and competencies of the business, thus highlighting the Strengths and Weaknesses, while External Analysis is about identifying and preparing for uncontrollable which can either be Opportunities or threats. Therefore, SWOT Analysis is a tool which is used for both Internal and External Analysis.

Competitive Advantage: Using Michael Porter's Generic Strategies

Competitive advantage is the position of a firm to maintain and sustain a favourable market position when compared to the competitors. Competitive advantage is ability to offer buyers something different and thereby providing more value for the money.

It is achieved advantage over rivals when a company's profitability is greater than average profitability of firms in its industry. It is the result of a successful strategy. This position gets translated into higher market share, higher profits when compared to those that are obtained by competitors operating in the same industry.

Competitive advantage may also be in the form of low cost relationship in the industry or being unique in the industry along dimensions that are widely valued by the customers in particular and the society at large.

It is achieved when the firm successfully formulates and implements the value creation strategy and other firms are unable to duplicate it or find it too costly to imitate. Further, it can be said that a firm is successful in achieving competitive advantage only after other firm's efforts to duplicate or imitate it fails.

Sustainability of Competitive Advantage

The sustainability of competitive advantage and a firm's ability to earn profits from its competitive advantage depends upon four major characteristics of resources and capabilities:

1. **Durability:** The period over which a competitive advantage is sustained depends in part on the rate at which a firm's resources and capabilities deteriorate. In industries where the rate of product innovation is fast, product patents are quite likely to become obsolete. Similarly, capabilities which are the result of the management expertise of the CEO are also vulnerable to his or her retirement or departure. On the other hand, many consumer brand names have a highly durable appeal.

2. **Transferability:** Even if the resources and capabilities on which a competitive advantage is based are durable, it is likely to be eroded by competition from rivals. The ability of rivals to attack position of competitive advantage relies on their gaining access to the necessary resources and capabilities. The easier it is to transfer resources and capabilities between companies, the less sustainable will be the competitive advantage which is based on them.

3. **Imitability:** If resources and capabilities cannot be purchased by a would-be imitator, then they must be built from scratch. How easily and quickly can the competitors build the resources and capabilities on which a firm's competitive advantage is based? This is the true test of imitability. Where capabilities require networks of organizational routines, whose effectiveness depends on the corporate culture, imitation is difficult.

4. **Appropriability:** Appropriability refers to the ability of the firm's owners to appropriate the returns on its resource base. Even where resources and capabilities are capable of offering sustainable advantage, there is an issue as to who receives the returns on these resources.

Michael Porter's Generic Strategies

According to Porter, strategies allow organizations to gain competitive advantage from three different bases:

- Cost leadership,
- Differentiation, and
- Focus.

Porter called these base generic strategies. These strategies have been termed generic, because they can be pursued by any type or size of business firm and even by not-for-profit organisations.

1) **Cost leadership** emphasizes on producing standardized products at a very low per-unit cost for consumers who are price-sensitive.
2) **Differentiation** is a strategy aimed at producing products and services considered unique industry-wide and directed at consumers who are relatively price-insensitive.
3) **Focus** means producing products and services that fulfil the needs of small groups of consumers with very specific taste.

Larger firms with greater access to resources typically compete on a cost leadership and/or differentiation basis, whereas smaller firms often compete on a focus basis.

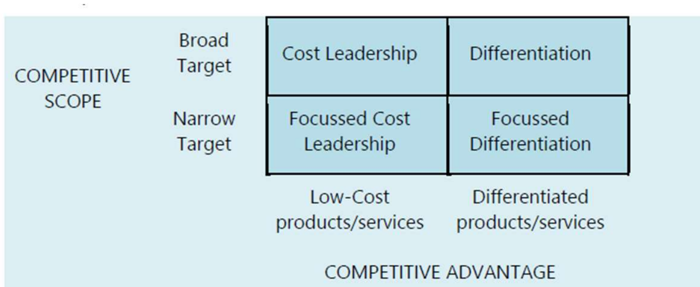

Figure: Michael Porter's Generic Strategies

Cost Leadership Strategy

Cost leadership strategy requires vigorous pursuit of cost reduction in the areas of procurement, production, storage and distribution of product or service and also economies in overhead costs. Accordingly, the cost leader is able to charge a lower price for its products than its competitors and still make satisfactory profits. The low-cost leadership should be such that no competitors are able to imitate so that it can result in sustainable competitive advantage to the cost leader firm.

Striving to be a low-cost producer in an industry can especially be effective:

- When the market is composed of many price-sensitive buyers and
- When there are few ways to achieve product differentiation.

Some risks of pursuing cost leadership are:

- that competitors may imitate the strategy, therefore driving overall industry profits down;
- that technological breakthroughs in the industry may make the strategy ineffective; or that buyer interests may swing to other differentiating features besides price.

Achieving Cost Leadership Strategy

To achieve cost leadership, following actions could be taken:

1. Forecast the demand of a product or service promptly.
2. Optimum utilization of the resources to achieve cost advantages.
3. Achieving economies of scale; thus, lower per unit cost of product/service.
4. Standardisation of products for mass production to yield lower cost per unit. (Example of McDonald's)
5. Invest in cost saving technologies and using advance technology for smart efficient working.
6. Resistance to differentiation till it becomes essential.

Advantages of Cost Leadership Strategy

A cost leadership strategy may help to remain profitable even with rivalry, new entrants, supplier's power, substitute products, and buyers' power.

1. Rivalry – Competitors are likely to avoid a price war, since the low-cost firm will continue to earn profits even after competitors compete away their profits.
2. Buyers – Powerful buyers/customers would not be able to exploit the cost leader firm and will continue to buy its product.
3. Suppliers – Cost leaders are able to absorb greater price increases from suppliers before they need to raise prices for customers.
4. Entrants – Low-cost leaders create barriers to market entry through their continuous focus on efficiency and cost reduction.

5. Substitutes – Low-cost leaders are more likely to lower the costs to induce existing customers to stay with their products, invest in developing substitutes, and even purchase patents.

Disadvantages of Cost Leadership Strategy

1. Cost advantage may not last long as competitors may imitate cost reduction techniques.
2. Cost leadership can succeed only if the firm can achieve higher sales volume.
3. Cost leaders tend to keep their costs low by minimizing cost of advertising, market research, and research and development, but this approach can prove to be expensive in the long run.
4. Technological advancement areas a great threat to cost leaders.

Differentiation Strategy

Differentiation strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service. Because of differentiation, the business can charge a premium for its product.

Differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the desired attributes.

Product development is an example of a strategy that offers the advantages of differentiation.

A risk associated with pursuing a differentiation strategy is that:

- The unique product may not be valued high enough by customers to justify the higher price. When this happens, a cost leadership strategy will easily defeat a differentiation strategy.
- Competitors may develop ways to copy the differentiating features quickly.

Basis of Differentiation:

There are several bases of differentiation, major being: Product, Pricing and Organization.

Product: Innovative products that meet customer needs can be an area where a company has an advantage over competitors. However, the pursuit of a new product offering can be costly – research and development, as well as production and marketing costs can all add to the cost of production and distribution. The payoff, however, can be great as customer's flock to be among the first to have the new product. For example, Apple iPhone, has invested huge amounts of money in R&D, and the customers' value that. They want to be among the first ones to try the new offerings from the company.

Pricing: It fluctuates based on its supply and demand and may also be influenced by the customer's ideal value for a product. Companies that differentiate based on product price can either determine to offer the lowest price or can attempt to establish superiority through higher prices. For example, Apple iPhone dominates the smart phone segment by charging higher prices for its products.

Organisation: Organisational differentiation is yet another form of differentiation. Maximizing the power of a brand or using the specific advantages that an organization possesses can be instrumental to a company's success. Location advantage, name recognition and customer loyalty can all provide additional ways for a company differentiate itself from the competition. For example, Apple has been building customer loyalty since years and has a fanbase of consumers that are called "Apple Fanboys/Fangirls".

Achieving Differentiation Strategy

To achieve differentiation, following strategies could be adopted by an organisation:

1. Offer utility to the customers and match products with their tastes and preferences.
2. Elevate/Improve performance of the product.
3. Offer the high-quality product/service for buyer satisfaction.
4. Rapid product innovation to keep up with dynamic environment.
5. Taking steps for enhancing brand image and brand value.
6. Fixing product prices based on the unique features of product and buying capacity of the customer.

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Advantages of Differentiation Strategy

A differentiation strategy may help an organisation to remain profitable even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

1. Rivalry - Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.
2. Buyers – They do not negotiate for price as they get special features and they have fewer options in the market.
3. Suppliers – Because differentiators charge a premium price, they can afford to absorb higher costs of supplies as the customers are willing to pay extra too.
4. Entrants – Innovative features are an expensive offer. So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.
5. Substitutes – Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.

Disadvantages of Differentiation Strategy

1. In the long term, uniqueness is difficult to sustain.
2. Charging too high a price for differentiated features may cause the customer

3. to switch-off to another alternative. As we see a shift of iPhone users to other
4. android flagship smart phones.
5. Differentiation fails to work if its basis is something that is not valued by the
6. customers. Home delivery of packed snacks in 30 minutes would not even be
7. a differentiator as the consumer wouldn't value such an offer.

Focus Strategies

Focus strategies are most effective when consumers have distinctive preferences or requirements, and when the rival firms are not attempting to specialize in the same target segment.

Focused cost leadership: A focused cost leadership strategy requires competing based on price to target a narrow market. A firm that follows this strategy does not necessarily charge the lowest prices in the industry. Instead, it charges low prices relative to other firms that compete within the target market. Firms that compete based on price and target a narrow market follow a focused cost leadership strategy.

Focused differentiation: A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market. Similar to focused low cost strategy, narrow markets are defined in different ways in different settings. Some firms using a focused differentiation strategy concentrate their efforts on a particular sales channel, such as selling over the internet only. Others target particular demographic groups. Firms that compete based on uniqueness and target a narrow market are following a focused differentiations strategy. For example, Rolls-Royce sells limited number of high-end, custom-built cars.

Achieving Focused Strategy

To achieve focused cost leadership/differentiation, following strategies could be adopted by an organization:

1. Selecting specific niches which are not covered by cost leaders and differentiators.
2. Creating superior skills for catering such niche markets.
3. Generating high efficiencies for serving such niche markets.
4. Developing innovative ways in managing the value chain.

Advantages of Focused Strategy

1. Premium prices can be charged by the organisations for their focused product/services.
2. Due to the tremendous expertise in the goods and services that the organisations following focus strategy offer, rivals and new entrants may find it difficult to compete.

Disadvantages of Focused Strategy

1. The firms lacking in distinctive competencies may not be able to pursue focus strategy.
2. Due to the limited demand of product/services, costs are high, which can cause problems.

3. In the long run, the niche could disappear or be taken over by larger competitors by acquiring the same distinctive competencies.

Best-Cost Provider Strategy

The new model of best cost provider strategy is a further development of above three generic strategies. It is directed towards giving customers more value for the money by emphasizing on both, low cost and upscale differences.

The objective is to keep costs and prices lower than those of other sellers of "comparable products".

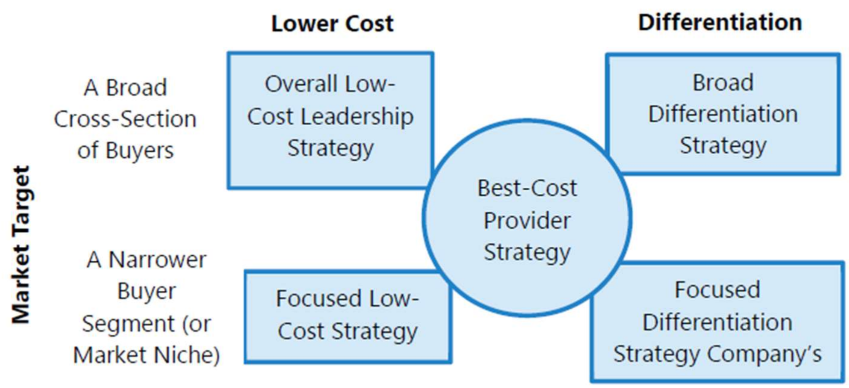

Figure: The Five Generic Competitive Strategies

Best-cost provider strategy involves providing customers more value for the money by emphasizing on lower cost and better-quality differences. It can be done through:

a. offering products at lower price than what is being offered by rivals for products with comparable quality and features Or

b. charging similar price as by the rivals for products with much higher quality and better features.