CHAPTER 3: STRATEGIC ANALYSIS – INTERNAL ENVIRONMENT

1. INTRODUCTION

- Strategic analysis plays a vital role in assessing an organization's internal environment.
- The internal environment includes:
  - ➢ People: Individuals, groups, and stakeholders like employees, management, investors and the board of directors.
  - ➢ Processes: The flow of work, including input-throughput-output systems.
  - ➢ Physical Infrastructure: Space, equipment and workplace conditions.
  - ➢ Administrative Structure: Lines of authority, power, responsibility and accountability.
  - ➢ Organizational Culture: Intangible aspects like relationships, values, ethics and philosophy that define the organization's identity.
- Each organization's internal environment is unique, shaped by its structure and business model.
- It also reflects key elements such as:
  - ✓ Ethics and principles.
  - ✓ Employee satisfaction and workplace culture.
  - ✓ Investor confidence and other cultural and philosophical factors that drive success.

2. UNDERSTANDING KEY STAKEHOLDERS

A. Who are Stakeholders?

- Stakeholders are individuals or groups who have an interest in an organization's success and can influence its outcomes.
- They include employees, shareholders, investors, suppliers, customers and regulators.
- This broader view recognizes that a firm is a coalition of various stakeholders, rather than being solely tied to the interests of owners and shareholders.

B. Defining Stakeholders

Stakeholders are anyone, internal or external, who has:

- An interest in the business or its strategy.
- The power to influence the organization's strategy or performance.

C. Examples of Stakeholders

- Primary stakeholders: Management, employees, shareholders, customers, and vendors.
- Additional stakeholders: Governments, labor unions, and local communities, depending on their impact on the organization.

D. Identifying Key Stakeholders

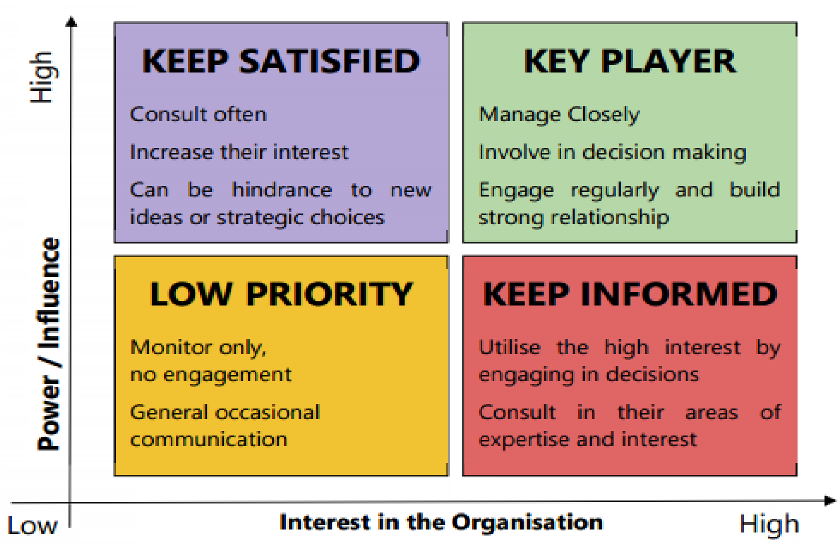
- It's essential to recognize the influence and interest levels of different stakeholders, as these vary.
- For example, a healthcare innovation firm may prioritize long-term investments in research, which aligns with stakeholders with a long-term perspective (e.g., management or research teams).
- However, shareholders focused on short-term profits may resist such spending.

E. Why Stakeholders Matter

- Stakeholders' expectations can shape the organization's strategy.
- Misalignment or conflicts between stakeholders (e.g., differing goals of investors and management) can lead to unfavorable outcomes for the organization.
- By identifying and understanding key stakeholders, businesses can create strategies that balance these interests effectively.

3. MENDELOW'S MATRIX

- Mendelow's Matrix (also called the Stakeholder Analysis Matrix or Power – Interest Matrix) is a simple framework to help manage key stakeholders.
- This framework ensures the right level of attention is given to each stakeholder group, which is critical for project success.
- Mendelow suggests that one should analyze stakeholder group based on Power (the ability of a stakeholder to influence organizational strategies or resources) and Interest (how interested they are in the organization succeeding).
- Following is the Mendelow's Matrix:



✓ Keep Satisfied Stakeholders: High Power, Less Interested People

❖ While these stakeholders have significant influence, they may not be as invested in the project's success.

❖ It is essential to keep them satisfied with sufficient information to prevent potential conflicts.

❖ For example, banks, government, customers, etc.

- ✓ Key Players Stakeholders: High Power, Highly Interested People
    - ❖ These stakeholders require close management and regular communication.
    - ❖ Fully engage with these stakeholders, satisfy them, seek their input, build actions and keep them informed which is crucial for project success.
    - ❖ They are crucial for the success of project so their needs and expectations should be a top priority.
    - ❖ For example, CEO, Shareholders, Board of Directors, etc.
- ✓ Low Priority Stakeholders: Low Power, Less Interested People
    - ❖ Organization 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
    - ❖ Organization should adequately inform this group of people and communicate with them to ensure that no major issues arise.
    - ❖ These audiences can also help with real time feedback and areas of improvement for an organization.
    - ❖ For example, employees, vendors, suppliers, legal experts, etc.

4. STRATEGIC DRIVERS

- An important aspect of internal analysis is assessing the current performance of the business for which Strategic Drivers are considered.
- Strategic drivers are essential elements that influence an organization’s ability to differentiate itself from its competitors and achieve competitive advantage.
- These drivers assess the current performance of the business and provide insights into areas that need focus.

- This involves analyzing:
    - ✓ Key markets the organization operates in.
    - ✓ Key customers it serves.
    - ✓ Products and services it provide.
    - ✓ Delivery channels it uses.
    - ✓ Its competitive advantage.
- Some of these elements are interconnected, such as how markets relate to products/services or how delivery channels connect to customers.
- Organizations assess their performance in different ways, depending on management's priorities and chosen metrics. These can be:
    - ✓ Profit-driven: Focused on financial performance.
    - ✓ Purpose-driven: Focused on mission or goals.
    - ✓ Other metrics aligned with the organization's strategy.
- The key strategic drivers of an organization include:
    - ✓ Industry and Markets – Understanding the industries and markets the organization operates in.
    - ✓ Customers – Analyzing key customer groups and their needs.
    - ✓ Products/Services – Evaluating the value and uniqueness of the organization's offerings.
    - ✓ Channels – Reviewing the methods and platforms used to deliver products/services.
- By focusing on these drivers, organizations can identify strengths, opportunities, and areas for improvement to stay ahead in the competition.

5. ELEMENTS OF STRATEGIC DRIVERS

The key strategic drivers include:

- Industry and Markets
  - ✓ Understanding the industry and markets is crucial for identifying the organization's relative position.
  - ✓ Industries group similar companies based on their primary products, while markets are defined by the buyers and sellers of these products.
  - ✓ Analyzing industry and market dynamics, often through tools like strategic group mapping, helps organizations evaluate competition and refine strategies.
- Customers
  - ✓ Identifying and understanding customers is a critical driver.
  - ✓ Customers are segmented based on their needs and spending capacity, which guides product development and marketing strategies.
  - ✓ Differentiating between customers (buyers) and consumers (users) is vital to tailoring pricing, design and usability strategies effectively.
- Products and Services
  - ✓ Products and services are central to defining the business.
  - ✓ Organizations must assess their offerings, classify products and devise strategies for differentiation, branding, and pricing.
  - ✓ Product innovation and marketing are key to maintaining competitiveness.
- Channels
  - ✓ The channels through which products and services are delivered impact accessibility and customer satisfaction.
  - ✓ Strategies related to direct, digital or relationship-based marketing ensure the efficient distribution of offerings to target customers.

6. INDUSTRY AND MARKETS

- In an internal environment, it is very important for an organization to understand it's relative position in the industry and in the market in which it operates.
- There are many ways to do this but require analysis and understanding of the environment.
- Similar companies are grouped together into industries but it is based on the primary product that a company makes or sells.
- For example, Maruti, Mahindra, Tata Motors, TVS, Bajaj Auto, are all selling automotives as their primary product and thus categorized into Automotive Industry.
- A market is defined as the sum total of all the buyers and sellers in the area or region under consideration.
  - ✓ 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.
- 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.

7. ANALYZING INDUSTRY AND MARKETS

- Industry and market analysis helps an organization understand its position compared to competitors using a tool called Strategic Group Mapping.
- A Strategic Group Mapping is a tool used for industry and competitive analysis and helps to identify strategic groups which consist of rival firms with similar competitive approaches and positions in the market.
- The procedure for implementing strategic group mapping effectively is a s follows:
  - ✓ Identify the competitive characteristics that differentiate firms in the industry by selecting variables such as price/quality range, geographic coverage, vertical integration, or distribution channels.
  - ✓ Plot the firms on a two – variable map using pairs of these differentiating characteristics.
  - ✓ Assign firms that fall in about the same strategy space to the same strategic group.
  - ✓ Draw circles around each strategic group making the circles proportional to the size of the group's respective share of total industry sales revenues.

8. CUSTOMERS

- The different types of customers an organization serve may have different types of needs and understanding their need is the first step in deciding the product/ service.
- The term customer and consumer are practically synonymous and are frequently used interchangeably.
- However, there is a thin distinction between them.
- Individuals or businesses that consume or utilize products and services are referred to as consumers.
- Customers are the purchasers of products and services in the economy and they might exist as consumers or only as customers.

9. PRODUCT/ SERVICES

- Products and services are closely connected to the markets a business serves.
- This section of strategic analysis helps a company identify its key offerings and assess how well they are performing.
- The key question is: What business are we in, and how can we beat the competition in each area?
- A product is a combination of goods and services offered to the target market.
- Companies must have strategies for:
  - ✓ Managing existing products over time.
  - ✓ Introducing new products.
  - ✓ Discontinuing unsuccessful products.
- They also need to make decisions about branding, packaging, warranties and other product features.
- Products can be categorized into industrial or consumer, essential or luxury and durable or perishable.
- Over time, products change as markets evolve and businesses must adjust their strategies to stay competitive.
- 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 a customer-centric approach while making a product.
  - ✓ Produce sufficient returns through a reasonable margin over cost.
  - ✓ Increasing market share.

10. MARKETING STRATEGIES

a) Social Marketing

- It refers to the advertisement done to increase acceptability of social idea, cause or practice among a target group to bring in a social change.
- For example, campaigns against smoking educate the public on where smoking is allowed and its health risks.

b) Augmented Marketing

- It refers to the additional benefits provided alongside core product.
- Examples include services like on-demand movies or online repair services.

c) Direct Marketing

- It refers to the use of advertisement media to interact directly with customers so that customers can give direct response.
- Examples include catalogues, emails, and TV shopping.

d) Relationship Marketing

- It involves creating, maintaining and enhancing strong, value – laden relationships with customers and other stakeholders.
- For example, airlines offer exclusive lounges for frequent flyers.

e) Services Marketing

- It refers to the application of marketing techniques to services, which are intangible and have unique characteristics (like inseparability).
- This requires special strategies as the services cannot be separated from the provider.
- For example, a coaching center advertising their specialized CA (Chartered Accountant) course preparation programs.

f) Person Marketing

- It refers to the activities undertaken to create, maintain or change attitude and behavior towards a particular person.
- For example, a celebrity marketing himself through fitness, fashion, endorsements and a strong social media presence.

g) Organization Marketing

- It refers to the activities undertaken to create, maintain or change attitude and behavior of target audiences towards an organization, whether it's a profit or non-profit entity.
- For example, Adani Group's "Growth with Goodness" campaign shows how the company grows while caring for people and the environment.

h) Place Marketing

- It refers to the activities undertaken to create, maintain or change attitude and behavior towards a particular place.
- For example, "Kuch Waqt Toh Guzariye Gujrat Mein" campaign was launched by the Gujrat Tourism Department to promote the State's rich culture, heritage and tourist destinations.

i) Enlightened Marketing

- It is a marketing philosophy which aims for long-term success.
- It has Five Principles – customer oriented marketing, innovative marketing, value marketing, sense-of-mission marketing and societal marketing.
- For example, Tata Tea's "Jaago Re" campaign which encourages social awareness and action on issues like voting and corruption while promoting their tea.

j) Differential Marketing

- It refers to the market coverage strategy in which a firm decides to target several market segments and designs separate offer for each.
- For example, Coca- Cola offering variations like Diet Coke, Coca – Cola Zero and Coca – Cola Life to cater to diverse consumer preferences.

k) Synchro Marketing

- It refers to managing demand fluctuations caused by seasonality or time-based factors.
- For instance, offering discounted movie tickets on weekdays to balance demand.

l) Concentrated Marketing

- It focuses on capturing a large share of a specific sub-market.
- It can also take the form of niche marketing.
- For example, Rolls- Royce which focuses exclusively on the luxury car market, targeting a specific, high – end customer segment with premium products.

m) De – Marketing

- It refers to the strategies to reduce demand temporarily or permanently.
- The aim is to reduce or shift demand rather than destroying the demand.
- It is pursued when there is overfull demand.
- For example, buses are overloaded in the morning and evening, roads are busy most of the time, zoological parks are over-crowded on Saturdays, Sundays and holidays.

11. CHANNELS

- Channels represent the distribution system through which organizations distribute their products or provide services to customers.
- They play a pivotal role in reaching target markets, maximizing sales and establishing competitive advantages.
- There are typically three channels that should be considered:

a) 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?

b) 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.

c) 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.

- 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.

12. CORE COMPETENCIES

- The concept of "core competency" was introduced by C.K. Prahalad and Gary Hamel.
- They define core competencies as the collective learning within an organization, especially its ability to coordinate various skills and integrate different technologies.
- A Core Competence is a unique strength of an organization which may not be shared by others.
- It is defined as a combination of skills and techniques rather than individual skill or separate technique.
- 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.
- Core Competencies should be such that it is difficult for competitors to imitate them.
- According to C.K. Prahalad and Gary Hamel, major core competencies are identified in three areas:
  - ✓ Competitor Differentiation
    - ❖ The company can consider having a core competence if the competence is unique and it is difficult for competitors to imitate.
    - ❖ This can provide a company an edge compared to competitors.
    - ❖ It allows the company to provide better products or services to market with no fear that competitors can copy it.
    - ❖ For example, Tesla differentiates itself by offering high – tech electric cars with unique features like self – driving and a dedicated charging network.
  - ✓ Customer Value
    - ❖ Core Competencies must deliver fundamental benefit for the end customers.
    - ❖ The product or service should have a real impact on customer as the reason to choose to purchase them.
    - ❖ If customers choose a product because it offers unique advantages, then it is a core competency.

- ❖ For example, Samsung gives customer value by offering feature – rich smartphones at competitive prices.

✓ Application to Other Markets

- ❖ A core competency should apply across the entire organization.
- ❖ It should not be limited to only one particular skill or specified area of expertise.
- ❖ It will not be considered as core competence, if it is not fundamental from the whole organization's point of view.
- ❖ For example, McDonald's applied its fast – food model to international markets by adapting menus to local tastes.

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

13. CRITERIA FOR BUILDING A CORE COMPETENCIES

- 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

- ❖ It should create value for customers.
- ❖ Valuable capabilities are the ones that allow the firm to exploit opportunities or avert the threats in its external environment.
- ❖ For example, human capital is important in creating value for customers.

✓ Rare

- ❖ Core competencies are very rare capabilities and very few of the competitors possess this.
- ❖ Capabilities possessed by many rivals are unlikely to be sources of competitive advantage.
- ❖ Competitive advantage occurs when firms develop and exploit valuable capabilities that others do not have.

✓ Costly to imitate

Costly to imitate means such capabilities that competing firms are unable to develop easily.

- ✓ Non – substitutable
    - ❖ Non-substitutable capabilities are those that have no equivalent in the market.
    - ❖ If there are no strategic equivalents, the competitive advantage can be enjoyed for a longer period.

14. SWOT ANALYSIS

- SWOT analysis is a tool used by organizations for evolving strategic options for the future.
- SWOT Analysis is an analysis of entity's strength, weaknesses, opportunities and threats.
- Strengths and weaknesses are identified in the internal environment, whereas opportunities and threats are located in the external environment.
- The primary objective of SWOT Analysis is to help an organization to develop a complete awareness of all the factors that are involved in business decision making it both internal and external factors.
- It is just a useful tool to discover recommendations and strategies with a focus on leveraging strengths and opportunities to overcome weaknesses and threats.
- The major purpose of SWOT analysis is to enable the management to create a firm-specific business model that will best align, fit or match organizational resources and capabilities to the demands of the environment in which it operates.
- A major benefit of SWOT Analysis is that it helps in identifying complex issues faced by the company and put them in a simple logical framework which will help in decision making.
- One of the major criticisms of SWOT Analysis is that it does not help in analyzing strength, weaknesses, opportunities and threats in the competitive context.
- Strength: Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitor.
- Weakness: A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.

- Opportunity: An opportunity is a favorable condition in the external environment which enables it to strengthen its position.
- Threat: An unfavorable condition in the external environment which causes a risk for or damage to the organization's position.

15. COMPETITIVE ADVANTAGE

- Competitive Advantage is the position of a firm to maintain and sustain a favorable market position when compared to the competitors.
- Competitive Advantage is an ability to offer buyers something different and thereby provide more value for the money.
- An organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry.
- It is the result of a successful strategy.
- An organization can establish competitive advantage if it possesses resources and capabilities which are superior to those of competitors and the firm utilizes these resources effectively.
- However, all competitive advantages have a limited life.

16. SUSTAINABILITY OF COMPETITIVE ADVANTAGE

The sustainability of a competitive advantage depends on the following four characteristics of a company's resources and capabilities:

- Durability
  - ✓ The period over which a competitive advantage is sustained depends on the rate at which a firm's resources and capabilities deteriorate.
  - ✓ For example, if innovation is fast, patents may soon become obsolete and if the capability is due to management expertise, then it will only last till the management is with the company.
- Transferability
  - ✓ Even if resources and capabilities are durable, they may lose value if competitors can easily access them.
  - ✓ The more easily resources can be transferred between companies, the less sustainable the competitive advantage will be.
- Imitability
  - ✓ When the resources and capabilities on the basis of which the competitive advantage is achieved cannot be easily copied or cannot be easily built or purchased, then competitive advantage will sustain for a longer period.
  - ✓ This is the true test of imitability.
- Appropriability
  - ✓ Appropriability refers to the ability of a company to capture the profits from its resources.
  - ✓ Even if a company has resources that offer a sustainable competitive advantage, it must ensure that it receives the rewards from these resources, rather than having them directed elsewhere.

17. MICHAEL PORTER'S GENERIC STRATEGIES

- According to Michael 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 are called "generic" because they can be applied by any business, regardless of size or industry, including non-profits.
- Cost Leadership Strategies
  - ✓ It emphasizes on producing standardized products at a very low per unit cost for price sensitive consumers.
  - ✓ It frequently results from productivity increases and aggressive pursuit of cost reduction throughout the development, production, marketing and distribution processes.
  - ✓ It allows a firm to earn higher profits than its competitors.
- Differentiation
  - ✓ It is a strategy aimed at producing products and services considered unique industry – wide and directed at consumers who are relatively price – insensitive.
  - ✓ It concerns with distinguishing a product/service from that of its competitors through unique design features, technological leadership, unique uses of products and attributes like quality, environmental impact and customer service.
- Focus
  - ✓ It means producing products and services for a specific small group of consumers with very particular needs or tastes.
  - ✓ It involves selecting or focusing a market or customer segment in which to operate.
- Larger firms with more resources usually use cost leadership or differentiation, while smaller firms focus on niche markets using the focus strategy.
- Sharing activities and resources can enhance competitive advantage by reducing costs or increasing differentiation.

- Porter emphasizes the need for firms to effectively transfer skills and expertise between business units to strengthen the organization's competitive edge.

18. COST LEADERSHIP STRATEGY

A. Meaning

- Cost Leadership Strategy is a low cost competitive strategy that aims at broad mass market.
- It requires cost reduction in the areas of procurement, production, storage, distribution and economies in overhead costs.
- Because of its lower costs, cost leader is able to charge a lower price & still earn satisfactory profits.
- For example, Walmart focuses on offering a wide variety of products at low prices.
- A primary reason for pursing forward, backward and horizontal integration strategies is to gain cost leadership benefits. But cost leadership must be pursued in conjunction with differentiation.

B. Circumstances in which an organization can gain competitive advantages from cost leadership strategy

- When the market is composed of many price sensitive buyers.
- When there are few ways to achieve product differentiation.
- When buyers do not care much about differences from brand to brand.
- When there are a large number of buyers with significant bargaining power.

C. Risks in pursuing cost leadership strategy

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

D. Achieving cost leadership strategy

- Forecast demand of a product or service accurately.
- Utilize resources optimally to achieve cost advantages.
- Achieve economies of scale for lower per-unit cost of product/service.
- Standardization of products for mass production to yield lower cost per unit.

- Invest in cost-saving technologies and using advance technology for smart working.
- Resistance to differentiation till it becomes essential.

E. Advantages of cost leadership strategy

- Rivalry

  Competitors will avoid a price war because the low – cost firm will still earn profits even if competitors lower their prices and take away their profits.

- Buyers

  Powerful buyers/customers would not be able to exploit the cost leader firm and will continue to buy its product.

- Suppliers

  Cost leaders are able to absorb higher prices from suppliers without having to increase prices for customers right away.

- Entrants

  Low-cost leaders create barriers to market entry through its continuous focus on efficiency and reducing costs.

- Substitutes

  Low-cost leaders lower costs to induce customers to stay with their product, invest to develop substitutes and purchase patents.

F. Disadvantages of cost leadership strategy

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

19. DIFFERENTIATION STRATEGY

A. Meaning

- 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.
- This uniqueness can be in areas like product design, brand image, features, technology, dealer network or customer service.
- Because of this, businesses can charge a premium price for their products.
- 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.
- A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty.
- Product Development is an example of a strategy that offers the advantages of differentiation.

B. Basis of Differentiation

- Product
  - ✓ Innovative products that meet customer needs can be an area where a company has an advantage over competitors.
  - ✓ However, new product offering can be costly such as research and development, production and marketing costs which all add to the cost of production and distribution.
  - ✓ Firms get first mover advantage here.
- Pricing
  - ✓ It fluctuates based on its supply and demand and may also be influenced by the customer's ideal value for a product.
  - ✓ Pricing can either be set low to attract price-sensitive customers or high to indicate superiority.

- Organization
  - ✓ Maximizing the power of a brand or using the specific advantages that an organization possesses can be instrumental to a company's success.
  - ✓ Differentiation can be achieved through brand power, location, and customer loyalty.

C. Achieving Differentiation Strategy

- Offer utility to the customers and match products with their tastes and preferences.
- Elevate/Improve performance of the product.
- Offer the high-quality product/service for buyer satisfaction.
- Rapid product innovation to keep up with dynamic environment.
- Take steps to enhance brand image and build brand value.
- Fix prices based on the unique features of the product and customers' ability to pay.

D. Advantages of Differentiation Strategy

- Rivalry

  Customers are loyal to brand and are less sensitive to price increase till the time firm satisfies the need of the customers.

- Buyers

  Buyers do not negotiate for price as they get special features and they have fewer options in the market.

- Suppliers

  Since the firm is charging a premium price, it can absorb higher costs of suppliers as the customers are willing to pay extra too.

- Entrants

  New entrants generally avoid innovative features because it is tough for them to provide the same product with special features at a comparable price.

- Substitutes

  Substitute products can't replace differentiated products as they have high brand value and customer loyalty.

E. Disadvantages of Differentiation Strategy

- In the long term, uniqueness is difficult to sustain.
- Charging too high a price for differentiated features may cause the customer to switch-off to another alternative.
- Differentiation fails to work if its basis is something that is not valued by the customers.

20. FOCUS STRATEGIES

A. Meaning of Focus Strategy

- A focus strategy aims to target a specific market segment that is large enough, has good growth potential, and is not vital to the success of other major competitors.
- Firms can use strategies like market penetration (offering new products to existing customers) and market development (introducing new products to new customers) to gain advantages in a focused market.
- Midsize and larger firms can pursue focus-based strategies alongside differentiation or cost leadership strategies.
- However, all firms are essentially pursuing a differentiated strategy, as only one company can achieve the lowest cost in the industry.
- Focus strategies are most effective when consumers have distinct preferences or needs and when the rival firms are not attempting to specialize in the same target segment.
- An organization using a focus strategy may concentrate on a particular group of customers, geographic markets or on particular product-line segments in order to serve a well-defined but narrow market better than competitors who serve a broader market.

B. Meaning of Focused Cost Leadership

- Focused Cost Leadership requires competing based on prices to target a narrow market.
- A firm that follows this strategy does not necessarily charge the lowest prices.
- 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.

C. Meaning of Focused Differentiation

- A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market.
- Some firms use this strategy often to target a particular sales channel such as online sales only.
- Others target particular demographic groups.
- Firms that compete based on uniqueness and target a narrow market are following a focused differentiations strategy.

D. Achieving Focused Strategy

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

E. Advantages of Focused Strategy

- Premium Prices

  For the differentiated segment, the company can charge premium prices for its upscale products leading to higher profit margins.

- Expertise in Niche Markets

  The company can develop tremendous expertise in both price-sensitive and premium segments, making it difficult for rivals to compete effectively.

- Strong Customer Loyalty

  By catering to a specific niche market, the organization can build strong relationships with its customers leading to higher customer loyalty and retention.

F. Disadvantages of Focused Strategy

- Distinctive Competencies Required

  ✓ The firm needs to have strong competencies in both cost control and product differentiation to succeed.

  ✓ Otherwise, it may struggle to pursue the focus strategy effectively.

- High Costs

  Serving a narrow market can lead to higher costs due to limited demand, which could pose challenges in maintaining profitability, especially in the premium segment.

- Disappearance in Long Run

  In the long run, the niche goods can disappear or be taken over by large competitors by acquiring the same distinctive competencies.

- Limited Market Size

  The niche market that the organization is targeting may be limited in size leading potential restriction of growth.

- Risk of Market Changes

  Changes in the market or customer preferences could impact on the demand for the company's specialized products or services leading to potential revenue loss.

- Imitation by Competitors

  If the organization success in the niche market attracts competitors, they may attempt to imitate its strategy eroding its competitive advantage.

21. BEST – COST PROVIDER STRATEGY

- The Best-Cost Provider Strategy is an advanced strategy that combines elements of low cost and upscale differentiation.
- The goal is to offer customers more value for their money by providing products with lower costs or superior quality than competitors.
- Two sub-strategies that can be implemented are:
  - ✓ Offer products at lower prices than rivals for products with comparable quality; or
  - ✓ Charging same prices for better quality of products.