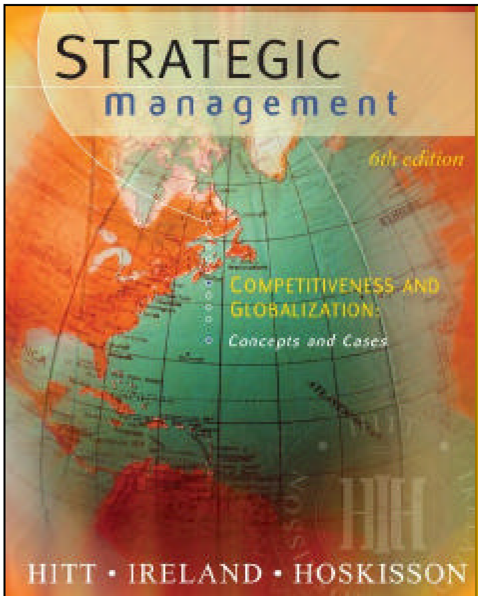
Slide 1



Chapter 4

Business-Level Strategy

An integrated and coordinated set of commitments and actions the firm uses to gain a competitive advantage by exploiting core competencies in specific product markets

PowerPoint slides by:
R. Dennis Middlemist
Colorado State University

Slide 2

The Strategic Management Process

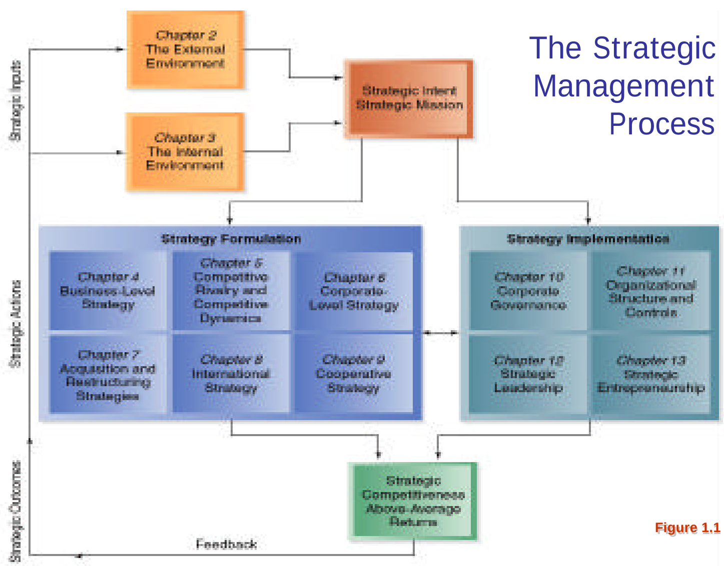
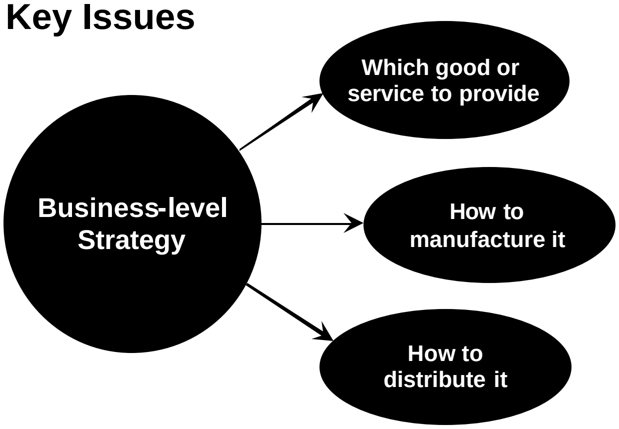


Figure 1.1

Slide 3

Business-Level Strategy

Key Issues



Slide 4

Core Competencies and Strategy

Core Competencies	Resources and superior capabilities that are sources of competitive advantage over a firm’s rivals
↓	
Strategy	An integrated and coordinated set of actions taken to exploit core competencies and gain competitive advantage
↓	
Business-level Strategy	Providing value to customers and gaining competitive advantage by exploiting core competencies in individual product markets

Slide 5

Customers: Business-Level Strategic Issues

- **Customers are the foundation of successful business-level strategy**
  - **Who** will be served by the strategy?
    - Segmentation—Consumer or Industrial (Business)
  - **What** needs those target customers have that the strategy will satisfy?
  - **How** those needs will be satisfied by the strategy?

Slide 6

Basis for Customer Segmentation

Consumer Markets

1. Demographic factors (age, income, sex, etc.)
2. Socioeconomic factors (social class, stage in the family life cycle)
3. Geographic factors (cultural, regional, and national differences)
4. Psychological factors (lifestyle, personality traits)
5. Consumption patterns (heavy, moderate, and light users)
6. Perceptual factors (benefit segmentation, perceptual mapping)

Table 4.1

SOURCE: Adapted from S. C. Jain, 2000, *Marketing Planning and Strategy*, Cincinnati: South-Western College Publishing, 120.

Slide 7

Basis for Customer Segmentation (cont'd)

Industrial Markets

1. End-use segments (identified by SIC code)
2. Product segments (based on technological differences or production economics)
3. Geographic segments (defined by boundaries between countries or by regional differences within them)
4. Common buying factor segments (cut across product market and geographic segments)
5. Customer size segments

Table 4.1

SOURCE: Adapted from S. C. Jain, 2000, *Marketing Planning and Strategy,* Cincinnati: South-Western College Publishing, 120.

Slide 8

Customer Needs—What?

- **Customer Needs to Satisfy**
  - Customer needs are related to a product's benefits and features
  - Customer needs are neither right nor wrong, good nor bad
  - Customer needs represent desires in terms of features and performance capabilities

Slide 9

Customer Needs—How?

- **Determining the Core Competencies Necessary to Satisfy Customer Needs**
  - Firms use core competencies to implement value creating strategies that satisfy customers' needs
  - Only firms with capacity to continuously *improve, innovate and upgrade* their competencies can expect to meet and/or exceed customer expectations across time

Slide 10

Types of Business-Level Strategy

- **Business-Level Strategies**
  - ➢ **Are intended to create differences between the firm's position relative to those of its rivals**
- **To position itself, the firm must decide whether it intends to:**
  - ➢ **Perform activities differently or**
  - ➢ **Perform different activities as compared to its rivals**

Slide 11

Types of Potential Competitive Advantage

- **Achieving lower overall costs than rivals**
  - ➢ **Performing activities differently (cheaper process)**
- **Possessing the capability to differentiate the firm's product or service and command a premium price**
  - ➢ **Performing different (valuable) activities**

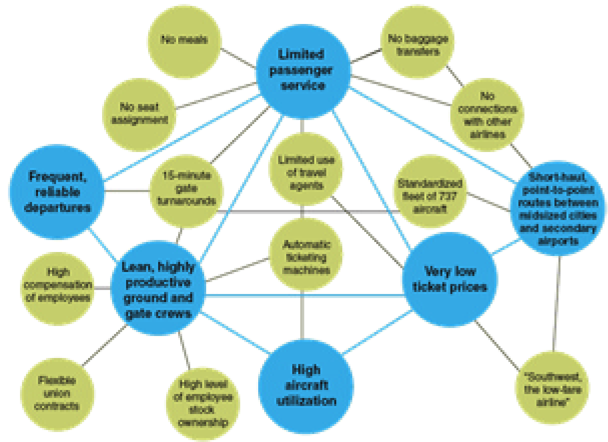
Slide 12

Two Targets of Competitive Scope

- **Broad Scope**
  - ➢ **The firm competes in many customer segments**
- **Narrow Scope**
  - ➢ **The firm selects a segment or group of segments in the industry and tailors its strategy to serving them at the exclusion of others**

Slide 13

Southwest Airlines’ Activity System



Slide 14

Five Business-Level Strategies

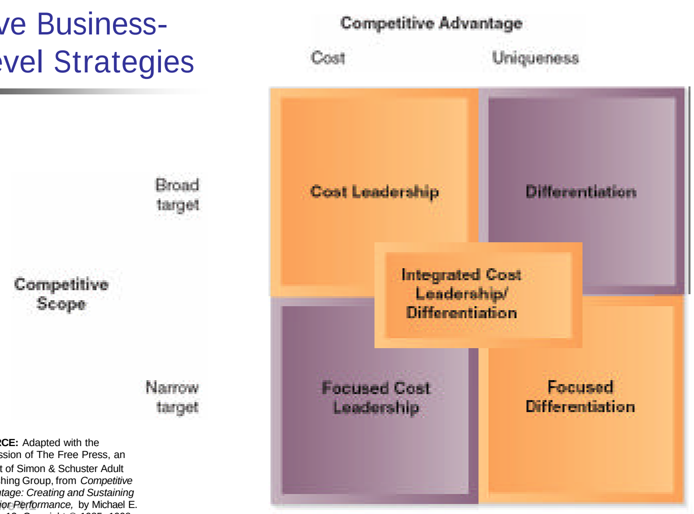


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Figure 4.1

Slide 15

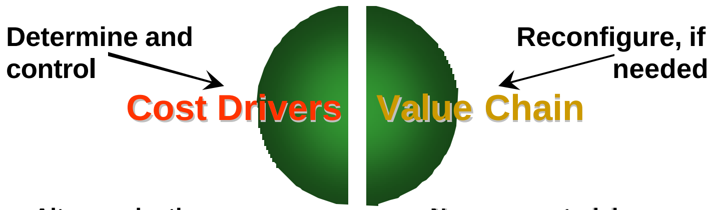
Cost Leadership Strategy

- **Relatively standardized products**
- **Features acceptable to many customers**
- **Lowest competitive price**

- **Cost saving actions required by this strategy:**
  - **Building efficient scale facilities**
  - **Tightly controlling production costs and overhead**
  - **Minimizing costs of sales, R&D and service**
  - **Building efficient manufacturing facilities**
  - **Monitoring costs of activities provided by outsiders**
  - **Simplifying production processes**

Slide 16

How to Obtain a Cost Advantage



- Alter production process
- Change in automation
- New distribution channel
- New advertising media
- Direct sales in place of indirect sales

- New raw material
- Forward integration
- Backward integration
- Change location relative to suppliers or buyers

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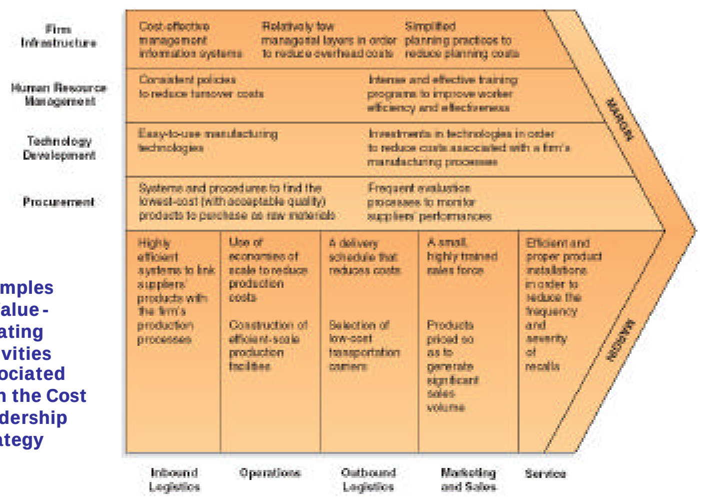

Examples of Value-Creating Activities Associated with the Cost Leadership Strategy

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Figure 4.2

Slide 18

Value-Creating Activities for Cost Leadership

- Cost-effective MIS
- Few management layers
- Simplified planning
- Consistent policies
- Effecting training
- Easy-to-use manufacturing technologies
- Investments in technologies
- Finding low cost raw materials

- Monitor suppliers' performances
- Link suppliers' products to production processes
- Economies of scale
- Efficient-scale facilities
- Effective delivery schedules
- Low-cost transportation
- Highly trained sales force
- Proper pricing

Slide 19

Cost Leadership and Porter's Analysis *(1 of 2)*

- **The Threat of Potential Entrants**
  - **Can frighten off new entrants due to:**
    - **Their need to enter on a large scale in order to be cost competitive**
    - **The time it takes to move down the learning curve**
- **Bargaining Power of Suppliers**
  - **Can mitigate suppliers' power by:**
    - **Being able to absorb cost increases due to low cost position**
    - **Being able to make very large purchases, reducing chance of supplier using power**

Slide 20

Cost Leadership and Porter's Analysis *(2 of 2)*

- **Bargaining Power of Buyers**
  - **Can mitigate buyers' power by:**
    - **Driving prices far below competitors, causing them to exit, thus shifting power with buyers back to the firm**
- **Product Substitutes**
  - **Cost leader is well positioned to:**
    - **Make investments to be first to create substitutes**
    - **Buy patents developed by potential substitutes**
    - **Lower prices in order to maintain value position**
- **Rivalry with Existing Competitors**
  - **Due to cost leader's advantageous position:**
    - **Rivals hesitate to compete on basis of price**
    - **Lack of price competition leads to greater profits**

Slide 21

Cost Leadership Strategy—Risks

- **Competitive Risks**
  - **Processes used to produce and distribute good or service may become obsolete due to competitors' innovations**
  - **Focus on cost reductions may occur at expense of customers' perceptions of differentiation**
  - **Competitors, using their own core competencies, may successfully imitate the cost leader's strategy**

Slide 22

Differentiation Strategy

- **An integrated set of actions taken to produce goods or services (at an acceptable cost) that customers perceive as being different in ways that are important to them**
  - **Nonstandardized products**
  - **Customers value differentiated features more than they value low cost**

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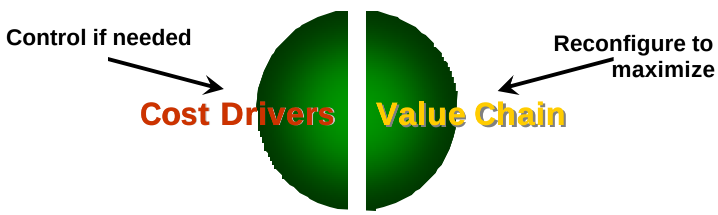
How to Obtain a Differentiation Advantage



- **Lower buyers' costs**
- **Raise performance of product or service**
- **Create sustainability through:**
  - **Customer perceptions of uniqueness**
  - **Customer reluctance to switch to non-unique product or service**

Slide 24

Examples of Value-Creating Activities Associated with the Differentiation Strategy

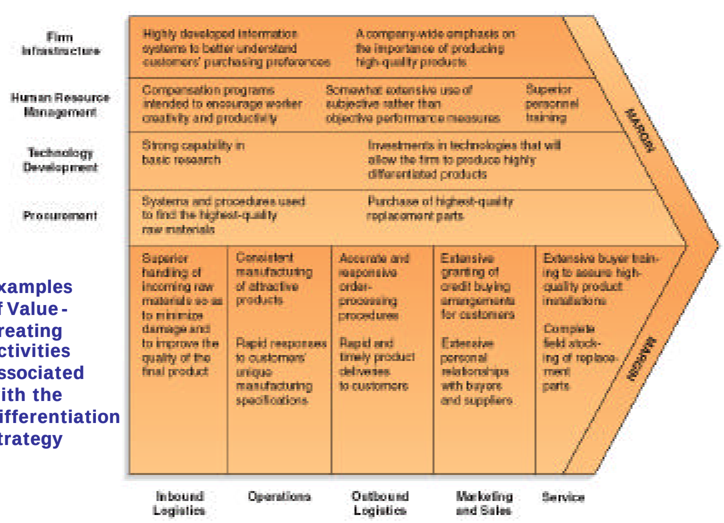


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Figure 4.3

Slide 25

Value-Creating Activities and Differentiation

- Highly developed MIS
- Emphasis on quality
- Worker compensation for creativity/productivity
- Use of subjective performance measures
- Basic research capability
- Technology
- High quality raw materials
- Delivery of products
- High quality replacement parts
- Superior handling of incoming raw materials
- Attractive products
- Rapid response to customer specifications
- Order-processing procedures
- Customer credit
- Personal relationships

Slide 26

Differentiation and Porter's Analysis *(1 of 2)*

- **The Threat of Potential Entrants**
  - Can defend against new entrants because:
    - New products must surpass proven products
    - New products must be at least equal to performance of proven products, but offered at lower prices
- **Bargaining Power of Suppliers**
  - Can mitigate suppliers' power by:
    - Absorbing price increases due to higher margins
    - Passing along higher supplier prices because buyers are loyal to differentiated brand

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Differentiation and Porter's Analysis *(2 of 2)*

- **Bargaining Power of Buyers**
  - Can mitigate buyers' power because well differentiated products reduce customer sensitivity to price increases
- **Product Substitutes**
  - Well positioned relative to substitutes because
    - Brand loyalty to a differentiated product tends to reduce customers' testing of new products or switching brands
- **Rivalry with Existing Competitors**
  - Defends against competitors because brand loyalty to differentiated product offsets price competition

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Competitive Risks of Differentiation

- **The price differential between the differentiator's product and the cost leader's product becomes too large**
- **Differentiation ceases to provide value for which customers are willing to pay**
- **Experience narrows customers' perceptions of the value of differentiated features**
- **Counterfeit goods replicate differentiated features of the firm's products**

Slide 29

Focus Strategies

- **Types of focused strategies**
  - Focused cost leadership strategy
  - Focused differentiation strategy
- **To produce goods or services that serve the needs of a particular competitive segment**
  - **Particular buyer group (e.g. youths or senior citizens**
  - **Different segment of a product line (e.g. professional craftsmen versus do-it-yourselfers**
  - **Different geographic markets (e.g. East coast versus West coast)**
- **To implement a focus strategy, firms must be able to:**
  - Complete various primary and support activities in a competitively superior manner, in order to develop and sustain a competitive advantage and earn above-average returns

Slide 30

Factors That Drive Focused Strategies

- **Large firms may overlook small niches.**
- **A firm may lack the resources needed to compete in the broader market**
- **A firm is able to serve a narrow market segment more effectively than can its larger industry-wide competitors**
- **Focusing allows the firm to direct its resources to certain value chain activities to build competitive advantage**

Slide 31

Competitive Risks of Focus Strategies

- A focusing firm may be "outfocused" by its competitors
- A large competitor may set its sights on a firm's niche market
- Customer preferences in niche market may change to more closely resemble those of the broader market

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Integrated Cost Leadership/ Differentiation Strategy

- An integrated cost leadership/differentiation strategy should be in a better position to:
  - Adapt quickly to environmental changes
  - Learn new skills and technologies more quickly
  - Effectively leverage its core competencies while competing against its rivals
- Commitment to strategic flexibility is necessary
  - Flexible manufacturing systems
  - Information networks
  - Total quality management (TQM) systems

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Risks of the Integrated Cost Leadership/ Differentiation Strategy

- Often involves compromises
  - Becoming neither the lowest cost nor the most differentiated firm
- Becoming "stuck in the middle"
  - Lacking the strong commitment and expertise that accompanies firms following either a cost leadership or a differentiated strategy

