

## Requirements for Generic Competitive Strategies Overall Cost Leadership

Commonly Required Skills and Resources	Common Organizational Requirements
<ul style="list-style-type: none"> <li>•Sustained capital investment and access to capital</li> <li>•Process engineering skills</li> <li>•Intense supervision of labor</li> <li>•Products designed for ease in manufacture</li> <li>•Low-cost distribution system</li> </ul>	<ul style="list-style-type: none"> <li>•Tight cost control</li> <li>•Frequent, detailed control reports</li> <li>•Structured organization and responsibilities</li> <li>•Incentives based on meeting strict quantitative targets</li> </ul>

## DIFFERENTIATION

Commonly Required Skills and resources	Common Organizational Requirements
<ul style="list-style-type: none"> <li>•Product engineering</li> <li>•Creative flare</li> <li>•Strong capability in basic research</li> <li>•Corporate reputation for quality or technological leadership</li> <li>•Unique combination of skills</li> <li>•Strong cooperation from channels</li> <li>•Strong marketing abilities</li> </ul>	<ul style="list-style-type: none"> <li>•Strong coordination among functions in R&amp;D, product development, and marketing</li> <li>•Subjective measurement and incentives instead of quantitative measures</li> <li>•Amenities to attract highly skilled labor, scientists, or creative people</li> </ul>

## FOCUS STRATEGY

Commonly Required Skills and resources	Common Organizational Requirements
<b>Combination of above policies directed at the particular strategic target</b>	<b>Combination of above policies directed at the particular strategic target</b>

## Risks of the Generic Strategies

Risks of Cost Leadership	Risks of Differentiation	Risks of Focus
<p><b>Cost leadership is not sustained</b></p> <ul style="list-style-type: none"> <li>•Competitors imitate</li> <li>•Technology changes</li> <li>•Other bases for cost leadership erode</li> </ul> <p>Proximity in differentiation is lost</p> <p>Cost focusers achieve even lower cost in segments</p>	<p><b>Differentiation is not sustained</b></p> <ul style="list-style-type: none"> <li>•Competitors imitate</li> <li>•Bases for differentiation become less important to buyers</li> </ul> <p>Cost proximity is lost</p> <p>Differentiation focusers achieve greater differentiation in segments</p>	<p><b>Focus strategy is imitated</b></p> <p>Target segment becomes unattractive</p> <ul style="list-style-type: none"> <li>•Structure erodes</li> <li>•Demand disappears</li> </ul> <p>Broadly target competitors overwhelm segments</p> <ul style="list-style-type: none"> <li>•Segment's differences from others narrow</li> <li>•Advantages of broad line increase</li> </ul>

## Types of Grand Strategies

- Concentrated growth
- Market development
- Product development
- Innovation
- Horizontal integration
- Vertical integration
- Concentric diversification
- Conglomerate diversification
- Turnaround
- Divestiture
- Liquidation
- Bankruptcy
- Joint ventures
- Strategic alliances
- Consortia

## Concentrated Growth Strategy

- Involves *focusing resources* on the profitable growth of a single product, in a single market, with a single dominant technology
- *Rationale* – Firm develops and exploits its expertise in a delimited competitive arena
- *Determinants of competitive market success*
  - Ability to assess market needs
  - Knowledge of buyer behavior
  - Customer price sensitivity
  - Effectiveness of promotion

## **Concentrated Growth Strategy When:**

- ✓ Firm's industry is resistant to major technological advancements
- ✓ Firm's target markets are not product saturated
- ✓ Firm's markets are sufficiently distinctive to dissuade competitors in adjacent markets from entering firm's segment
- ✓ Firm's inputs are stable in price and quantity and available in the amounts and at the times needed
- ✓ Firm's industry is stable
- ✓ Firm's competitive advantages are based on efficient production or distribution channels
- ✓ Success of market generalists

## **Market and/or Product Development**

- ***Market development***
  - Consists of marketing present products, often with only cosmetic modifications to customers in related market areas by
    - Adding channels of distribution or
    - Changing content of advertising or promotion
- ***Product development***
  - Modification of existing products or creation of new but related products
  - Based on penetrating existing market by
    - product modifications of existing items or
    - new products connected to existing products

## **CONCENTRATION – Buy More of Same**

### **Increasing present customers' rate of use**

- a. Increasing size of purchase
- b. Increasing the rate of product obsolescence
- c. Advertising other uses
- d. Giving price incentives for increased use

### **1. Attracting competitors' customers**

- a. Establishing sharper brand recognition
- b. Increasing promotional effort
- c. Initiating price cuts

### **2. Attracting nonusers to buy the product**

- a. Introducing trial use thru' sampling, price incentives, etc.
- b. Pricing up or down
- c. Advertising new uses

## **Market Development (Same stuff in new markets.)**

### **Opening additional geographic markets**

- a. Regional expansion
- b. National expansion
- c. International expansion

### **Attracting other market segments**

- a. Developing product versions to appeal to other segments
- b. Entering other channels of distribution
- c. Advertising in other media

## Product Development (New products for present markets)

### Developing new product features

- a. Adapt (to other ideas, developments)
- b. Modify (change color, motion, sound, odor, form, shape)
- c. Magnify (stronger, longer, thicker, extra value)
- d. Minify (smaller, shorter, lighter)
- e. Substitute (other ingredients, process, power)
- f. Rearrange (other patterns, layout, sequence, components)
- g. Reverse (inside out)
- h. Combine (blend, alloy, assortment, ensemble, combine units, etc.)

### Developing quality variations

### Developing additional models and sizes (product proliferation)

## Horizontal / Vertical Integration Strategies

### Horizontal Integration

- **Based on growth via acquisition of one or more similar firms operating at the same stage of the production-marketing chain**

### Vertical Integration

- **Involves acquiring firms**
  - **That supply acquiring firm with inputs (*backward* integration) or**
  - **Are customers for firm's outputs (*forward* integration)**

### **Why Diversify? – Get into new businesses**

- ✓ **Increase firm's stock value**
- ✓ **Increase growth rate of firm**
- ✓ **Investment is better use of funds than using them for internal growth**
- ✓ **Improves stability of earnings and sales**
- ✓ **Balance or fill out product line**
- ✓ **Diversify product line**
- ✓ **Acquire a needed resource quickly**
- ✓ **Achieve tax savings**
- ✓ **Increase efficiency and profitability**

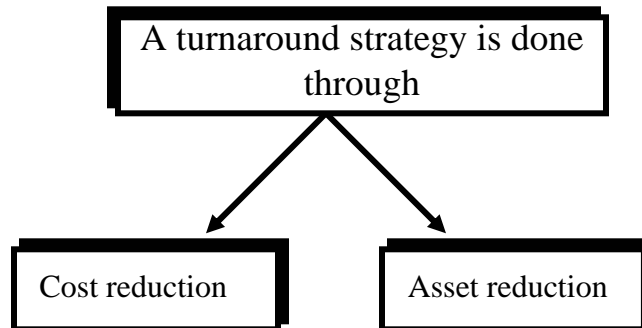
#### *Concentric Diversification (commonality & synergy)*

- **Involves acquisition of businesses related to acquiring firm in terms of technology, markets, or products**

#### *Conglomerate Diversification (non related ventures)*

- **Involves acquisition of a business because it represents a promising investment opportunity**
  - **Primary motivation is profit pattern of venture**
  - **May be triggered by differential inflation**
  - **Cash in on name value**

## Turnaround Strategy



## Terms Used in Turnaround Strategy

- **A *turnaround situation* represents absolute and relative-to-industry declining performance of a sufficient magnitude to warrant explicit turnaround actions**
- **The immediacy of the resulting threat to company survival posed by the turnaround situation is known as *situation severity***
- **Turnaround responses typically include two stages of strategic activities**
  - Retrenchment
  - Recovery response

### Divestiture Strategy

- **Involves selling a firm or a major component of a firm**
- **Reasons for divestiture**
  - **Partial mismatches between acquired firm and parent firm**
  - **Corporate financial needs**
  - **Government antitrust action**

### Liquidation Strategy

- **Involves selling parts of a firm, usually for its tangible asset value and not as a going concern**

## **Bankruptcy**

- **Two approaches**
  - *Liquidation* – **Involves complete distribution of a firm's assets to creditors, most of whom receive a small fraction of amount owed**
  - *Reorganization* – **Involves creditors temporarily freezing their claims while a firm reorganizes and rebuilds its operations more profitably**
- **Advantage of a reorganization bankruptcy**
  - *Proactive option* **offering maximum repayment of a firm's debt in the future if a recovery strategy is successful**

## **Corporate Combination Strategies**

### Joint Ventures

- **Involves establishing a third company (child), operated for the benefit of the co-owners (parents)**

### Strategic Alliance

- **Involves creating a partnership between two or more companies that contribute skills and expertise to a cooperative project**
  - **Exists for a defined period**
  - **Does not involve the exchange of equity**

- ***Consortia* are defined as large interlocking relationships between businesses of an industry. In Japan such consortia are known as *keiretsus*, in South Korea as *chaebols***
- **A Japanese *keiretsu* is an undertaking involving up to 50 different firms that are joined around a large trading company or bank and are coordinated through interlocking directories and stock exchanges**
- ***Chaebols* are typically financed through government banking groups and largely are run by professional managers trained by participating firms expressly for the job**

## **The Top Five Strategic Reasons for Outsourcing**

- 1. Improve business focus**
- 2. Access to world-class capabilities**
- 3. Accelerated reengineering benefits**
- 4. Shared risks**
- 5. Free resources for other purposes**