**Module 3 - Background**

**STRATEGIC CHOICES**

In Module 3, we will concentrate our efforts on strategic alternatives at the corporate, business, and functional levels. Companies follow strategies at each of these levels, as well as at the global level.

* At the **functional** level, strategies are short term in nature, and refer to company functions such as marketing, manufacturing, materials management, customer service, and R&D.
* At the **business**level, strategies are of medium range. They include the company's market positioning, geographic locations, and distribution channels.
* At the **corporate** level, strategies are long term, and include options such as horizontal and vertical integration, diversification, strategic alliances, and mergers and acquisitions (M&A).

Click on the link for a presentation on [*Strategic Choices*](https://tlc.trident.edu/content/enforced/127819-MGT599-2019JUL22FT-1/Strategic%20Choices.ppt?_&d2lSessionVal=1FUTX7B6dpcsoSqkMIeNKHUHQ&ou=127819) by Professor Anastasia Luca.

**Competitive Advantage**

In this module, we will focus on the strategic options available to companies at the business level. Companies select business strategies to obtain Sustained Competitive Advantage (SCA) against competitors. Read about SCA here:

Competitive advantage (2007). *Quick MBA*. Retrieved on August 29, 2014, from [*http://www.quickmba.com/strategy/competitive-advantage/*](http://www.quickmba.com/strategy/competitive-advantage/)

SCAs are advantages that cannot be easily copied or imitated by competitors. A few years ago, strategists talked in terms of Porter's generic strategies (basically cost and differentiation). Read about Porter’s generic strategies here:

Porter's generic strategies. (2007). *Quick MBA.* Retrieved on August 29, 2014, from [*http://www.quickmba.com/strategy/generic.shtml*](http://www.quickmba.com/strategy/generic.shtml)

Today, we have four distinct strategies we use to analyze strategic options, although there are various approaches to achieving these strategies. They are:

* Cost Leadership
* Differentiation
* Niche/Focus
* Preemptive Move (or first-mover advantage)

**Cost leadership**

Most people think of economies of scale when they think of low-cost strategies. McDonald’s and Wal-Mart notwithstanding, high volume is not the only way to achieve low prices. Here are some other approaches to implementing a low-cost strategy:

**No frills:** Southwest Airlines eschewed big airports and cut costs by flying to smaller airports. Competitors such as Delta and American were too heavily invested in the hub business model to change.

**Product design:** Masonite developed an alternative to expensive wood products by using sawdust and woodchips. Telecommunications companies now "bundle" their products, offering cable/satellite TV, high-speed Internet and telephone service for one low price. Hershey's shrank the chocolate bar to keep from raising its low price.

**Operational economies:** Companies can save money by eliminating high costs in the value chain. For example, a company such as Amazon can reduce its costs by reducing the rate of customer returns. Clearly, mass sales or mass production serve to increase economies of scale as the company’s operations become increasingly efficient.

**Economies of Scale:** With higher sales, fixed costs such as R&D, overhead, advertising, and even legal support can be spread over a larger revenue base.

**Experience:** Costs decline at a predictable rate with a firm’s accumulated experience. Such declines are attributed to the learning curve, technological improvements, and product redesign resulting in product and process efficiencies.

Here is another way of looking at low-cost strategies:

Scilly, M. (2015). Examples of cost leadership and strategy marketing. *Small Business Chron.*Retrieved from [*http://smallbusiness.chron.com/examples-cost-leadership-strategy-marketing-12259.html*](http://smallbusiness.chron.com/examples-cost-leadership-strategy-marketing-12259.html)

**Differentiation Strategies**

If a company positions itself as offering a product or service that is different from its competitors in a way that customers value, it is following a differentiation strategy.

A successful differentiation strategy will create customer value that is *perceived* as such by the customer. Many so-called "new-and-improved" products have fallen flat because the customer simply didn't care. In addition, a successful differentiation strategy will only build Sustained Competitive Advantage to the degree that it is difficult to copy.

There are many ways to add value to any aspect of a business through differentiation:

* **Ingredients/components:**Healthier, "greener," longer-lasting ingredients/materials (e.g., Maytag appliances, Healthy Choice frozen dinners).
* **Product offering:** Better-designed products (new generation products).
* **Combining products:** Two is better than one (e.g., Colgate 2 in 1 toothpaste and mouthwash).
* **Added services:** Extra services beyond the basic purpose of the product or service (e.g., concierge service with American Express cards).
* **Breadth of Product Line:** Extra convenience in dealing with fewer vendors (e.g., Wal-Mart offers one-stop shopping, eliminating the need to go to multiple stores).
* **Channel:** Offering items or services through a medium or channel unavailable in that form anywhere else (e.g., eBay offers instant access to hundreds of individuals worldwide, simultaneously or asynchronously).
* **Design:**Product or service is unique (e.g., bed-and-breakfasts offer a more ''homey" alternative to standardized hotel rooms).

In general, there are two ways to build SCA through differentiation strategies. Most of the methods of adding value mentioned above can be related to either quality or brand recognition.

**Quality Strategy:** In this type of differentiation, a company tries to set its product/service apart on the basis of superior quality. It is probably the most widely used method of attaining Sustained Competitive Advantage. Usually, quality means superior performance, and a premium brand as opposed to discount or economy brands. Such top-of-the-line offerings command a high price tag. However, quality does not always mean expensive. Both Mercedes (expensive) and VW (less expensive) connote high-quality German engineering.

**Branding:** Brands build SCA through customer familiarity, loyalty, and trust. Aspirin is aspirin, but Bayer continues to thrive against low-priced generics due to the power of the brand.

**Blue Ocean: An Alternative Approach**

A combination of low-cost and differentiation strategies has created a buzz in the recent business press. Known as "Blue Ocean" strategy, it is a new idea that challenges the standard classifications of strategy.

The following is the official Blue Ocean website. Check out some of the links to view the tools and frameworks for Blue Ocean strategic planning:

Kim, W. C. and Mauborgne, R. (2009), What is BOS? Nine key points of Blue Ocean Strategy. Retrieved on August 29, 2014, from [*http://www.blueoceanstrategy.com/abo/what\_is\_bos.html*](http://www.blueoceanstrategy.com/abo/what_is_bos.html)

**Niche/Focus Strategies**

Niche or Focus strategies are really variations of a cost or differentiation (or both) strategy, only concentrating the company's efforts on a single or limited product or market. By focusing its efforts, the firm is able to realize the following advantages:

* **Avoid distraction or dilution:**All of the firm’s efforts are directed toward a single end, and competitive pressures are diminished. All company resources and capabilities are matched to the market needs, creating SCA (remember RBV?).
* **Maximize limited resources:** When resources are tight, they will go farther and create a greater impact when the target is limited.
* **Circumvent competitors’ resources and capabilities:** By operating in a niche market, say, private-label manufacturing, a firm does not have to contend with the big advertising and distribution capacities of the brand names. Competitive pressures are diminished overall as there are likely to be fewer competitors.
* **Establish a unique identity:** Offering a narrow product line, or operating in a limited geographic area can confer a certain cachet. In-N-Out Burger, for example, competes successfully with the huge fast food franchises by refusing to offer anything but hamburgers, made with the freshest site-prepared ingredients, in California, Nevada and Arizona only.

There are basically three ways a firm can establish a focus strategy. It can concentrate on one of these approaches, or a combination.

**Focusing the product line:** Firms that focus their product line often do so because they possess some expertise and special interest that often translates into technical superiority. These products excite and electrify. Take Bose Corporation, for example. It manufactures a small line of exceedingly high-quality audio products that are based on astonishing technology. If Bose broadened its offerings to all kinds of consumer electronics, it would run the risk of sliding into mediocrity with ho-hum products.

**Targeting market segments:** This is essentially "snob appeal" broadly defined. Gucci handbags target high-end fashionistas, Harley-Davidson targets rebellious non-conformists (at least in their own minds), and Castrol motor oil, which is not even sold in service stations, targets independent male do-it-yourselfers.

**Limited geographic area:**We have already considered In-N-Out Burger, but many other products are conferred a kind of cachet because you cannot get them just anywhere. Other examples include small breweries (e.g., Shiner Beers in Texas), coffee shops (independent and locally owned), or bakeries (Tim Hortons donuts in Canada and the northeast United States).

For another take on niche strategies, including some important caveats about potential pitfalls, read:

Iansiti, M. and Levien, R. (2004). Strategy for small fish. *Harvard Business School Working Knowledge*. Retrieved on August 29, 2014, from [*http://hbswk.hbs.edu/item/4331.html*](http://hbswk.hbs.edu/item/4331.html)

**Preemptive Strategy**

By being the first entrant into a new market or business area, a firm can establish competencies or assets that competitors are not able to copy or develop on their own. The first-mover advantage can create high switching costs for customers, erect high barriers to entrance for competitors, and tie up contracts with suppliers. Thus, a preemptive strategy can confer SCAs both from internal and external sources.

Preemptive strategies are usually implemented in one of three ways:

**Product opportunities:** The first product offered in a new market can generate advantages in terms of dominant position that can be hard for competitors to later dislodge or overcome. A company can establish the "standard" for an industry, such as Intel did with microprocessors and Microsoft with operating systems. Of course, firms must continue investment in improvements lest an upstart come up with a "better mousetrap."

**Production systems:** When a firm invents a better or more efficient production system that expands capacity, reduces cost and/or improves quality, they have created SCA.

**Customer advantages:** First movers have an advantage with customers—creating brand loyalty and increasing switching costs. Customers become used to a familiar product or brand and see no reason to switch. Some companies get customers to make long-term commitments—as in long contracts for the latest in iPhone or BlackBerry technology. Banks may vie to get first-mover advantage in online banking because such systems involve substantial switching costs for customers who pay all their bills online. Here is a brief article discussing the first-mover advantage in practice:

Liang, T., Czaplewski, A., Klein, G., & Jiang, J. (2009). Leveraging first-mover advantages in internet-based consumer services. *Communications of the ACMe, 52*(6), 146-148. Retrieved on August 29, 2014 from ProQuest.

**Optional Reading**

Akan, O., Allen, R. S., Helms, M. M., & Spralls, S.A. (2006). Critical tactics for implementing porter's generic strategies.*The Journal of Business Strategy, 27*(1), 43-53. Retrieved on August 29, 2014 from ProQuest.

Ormanidhi, O., & Stringa, O. (2008). Porter's model of generic competitive strategies. *Business Economics*, *43*(3), 55-64. Retrieved from EBSCO – Business Source Complete.