



TAILORING STRATEGY TO FIT SPECIFIC INDUSTRY AND COMPANY SITUATIONS



Summary of Strategies

- Five Generic Competitive Strategies
 - Low-Cost Leadership Strategy
 - Broad Differentiation Strategies
 - Best-Cost Provider Strategies
 - Focused Low-Cost Strategies
 - Focused Differentiation Strategies
- Vertical Integration Strategies
- Merger and Acquisition Strategies
- Cooperative Strategies
- Offensive and Defensive Strategies
- Internet Strategies for Traditional Businesses



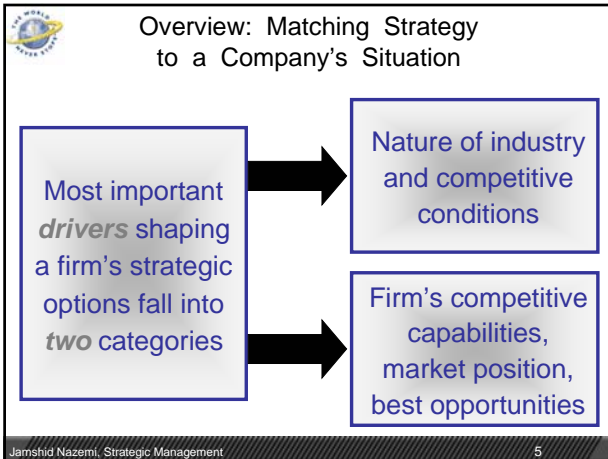
Strategy Options for International Markets

- Exporting
- Licensing
- Franchising strategy
- Multi-country strategy
- Strategic alliances or joint ventures



- Strategies for Emerging Industries
- Strategies for Turbulent, High Velocity Markets
- Strategies for Maturing Industries
- Strategies for Declining Industries
- Strategies for Fragmented Industries
- Strategies for Sustaining Rapid Growth
- Strategies for Industry Leaders
- Strategies for Runner-up Firms
- Strategies for Weak Businesses
- Ten Commandments for Crafting Strategies





- Features of an Emerging Industry
- New and unproven market
 - Proprietary technology
 - Low entry barriers
 - Experience curve effects may permit cost reductions as volume builds
 - Buyers are first-time users
 - Marketing involves inducing initial purchase or overcoming customer concerns
 - Possible difficulties in securing raw materials
 - Firms struggle to fund R&D, operations and build resource capabilities for rapid growth
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- Strategy Options for Competing in Emerging Industries
- Win early race for industry leadership by employing a **bold, creative** strategy
 - Push hard to perfect **technology**, improve product **quality**, and develop attractive **performance features**
 - **Move quickly** when technological uncertainty clears and a **dominant** technology emerges
 - Form **strategic alliances** with
 - Key suppliers
 - Companies having related technological expertise
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- Strategy Options for Competing in Emerging Industries (continued)
- Capture potential **first-mover** advantages
 - Pursue
 - **New customers** and **user applications**
 - Entry into **new geographical** areas
 - Focus **advertising** emphasis on
 - Increasing frequency of use
 - Creating brand loyalty
 - Use **price cuts** to attract price-sensitive buyers
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Features of High Velocity Markets

- Rapid-fire technological change
- Short product life-cycles
- Rapidly evolving customer expectations
- Frequent launches of new competitive moves
- Entry of important rivals

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Figure 8.1: Meeting the Challenge of High-Velocity Change

Strategic Posture	Actions	Strategy
Defensive Reacting to Change	<ul style="list-style-type: none"> • Introduce better products in response to new offerings of rivals • Respond to unexpected changes in buyer needs and preferences • Adjust to new government policies 	<ul style="list-style-type: none"> • React and respond as needed • Defend and protect company's position
Anticipating Change	<ul style="list-style-type: none"> • Analyze prospects for market globalization • Research buyer needs, preferences, and expectations • Monitor new technological developments to predict future 	<ul style="list-style-type: none"> • Plan ahead for future changes • Add/adapt competitive capabilities • Improve product line • Strengthen distribution
Offensive Leading Change	<ul style="list-style-type: none"> • Pioneer new and better technologies • Introduce innovative products that open new markets and spur creation of whole new industries • Seek to set industry standards 	<ul style="list-style-type: none"> • Seize the offensive • Be the agent of industry change • Influence rules of the game • Force rivals to follow

Source: Adapted from Shona L. Brown and Kathleen M. Eisenhardt, *Competing on the Edge: Strategy as Structured Chaos* (Boston, MA: Harvard Business School Press, 1998) p. 6

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Strategy Options for Competing in High Velocity Markets

- Invest aggressively in **R&D**
- Develop **quick response capabilities**
 - Shift resources
 - Adapt competencies
 - Create new competitive capabilities
 - Speed new products to market
- Use **strategic partnerships** to develop specialized expertise and capabilities
- Initiate **fresh actions** every few months
- Keep **products/services fresh** and **exciting**

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Keys to Success in Competing in High Velocity Markets

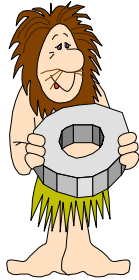
- Cutting-edge expertise
- Speed in responding to new developments
- Collaboration with others
- Agility
- Innovativeness
- Opportunism
- Resource flexibility
- First-to-market capabilities

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Characteristics of Industry Maturity

- Slowing demand breeds stiffer competition
- More sophisticated buyers demand bargains
- Greater emphasis on cost and service
- "Topping out" problem in adding production capacity
- Product innovation and new end uses harder to come by
- International competition increases
- Industry profitability falls
- Mergers and acquisitions reduce the number of industry rivals



Strategy Options for Competing in a Mature Industry

- **Prune** marginal products and models
- Emphasize **innovation** in the **value chain**
- Strong focus on **cost reduction**
- **Increase sales** to present customers
- **Purchase rivals** at bargain prices
- Expand **internationally**
- Build new, more **flexible competitive capabilities**



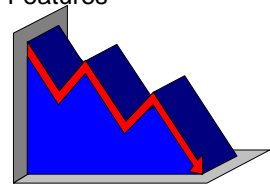
Strategic Pitfalls in a Maturing Industry

- Employing a ho-hum strategy with no distinctive features thus leaving firm **"stuck in the middle"**
- **Concentrating** on **short-term** profits rather than strengthening long-term competitiveness
- **Being slow** to **adapt** competencies to changing customer expectations
- **Being slow** to respond to **price-cutting**
- **Having** too much **excess capacity**
- **Overspending** on **marketing**
- **Failing** to pursue **cost reductions** aggressively



Stagnant or Declining Industries: The Standout Features

- Demand grows more slowly than economy as whole (or even declines)
- Competitive pressures intensify--rivals battle for market share
- To grow and prosper, firm must take market share from rivals
- Industry consolidates to a smaller number of key players via mergers and acquisitions





Strategy Options for Competing in a Stagnant or Declining Industry

- Pursue **focus strategy** aimed at fastest growing market segments
- Stress **differentiation** based on quality improvement or product innovation
- Work diligently to **drive costs down**
 - Cut marginal activities from value chain
 - Use outsourcing
 - Redesign internal processes to exploit e-commerce
 - Consolidate under-utilized production facilities
 - Add more distribution channels
 - Close low-volume, high-cost distribution outlets
 - Prune marginal products



Competing in a Stagnant Industry: The Strategic Mistakes

- Getting embroiled in a profitless battle for market share with stubborn rivals
- Diverting resources out of the business too quickly
- Being overly optimistic about industry's future (believing things will get better)



Competitive Features of Fragmented Industries

- Absence of market leaders with large market shares
- Buyer demand is so diverse and geographically scattered that many firms are required to satisfy buyer needs
- Low entry barriers
- Absence of scale economies
- Buyers require small amounts of customized or made-to-order products
- Market for industry's product/service may be globalizing, thus putting many companies across the world in same market arena
- Exploding technologies force firms to specialize just to keep up in their area of expertise
- Industry is young and crowded with aspiring contenders, with no firm having yet developed recognition to command a large market share



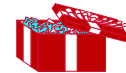
Examples of Fragmented Industries



Book publishing
Landscaping and plant nurseries



Auto repair



Restaurant industry



Public accounting

Women's dresses

Meat packing

Paperboard boxes


Hotels and motels

Furniture



Competing in a Fragmented Industry: The Strategy Options

- Construct and operate **“formula” facilities**
- Become a **low-cost** operator
- **Specialize** by **product** type
- **Specialize** by **customer** type
- Focus on **limited geographic** area



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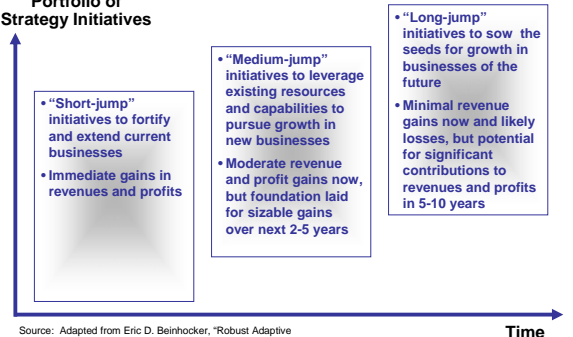
Strategies for Sustaining Rapid Growth

- Companies desirous of growing revenues and earnings rapidly year-after-year have to have a portfolio of strategies
 - **Horizon 1:** Strategic initiatives to fortify and extend their position in existing businesses
 - **Horizon 2:** Strategic initiatives to leverage existing resources and capabilities by entering new businesses with promising growth potential
 - **Horizon 3:** Strategic initiatives to plant new seeds for venturing into businesses that are just emerging or do not even exist yet

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Figure 8.2: Three Strategy Horizons for Sustaining Rapid Growth

Portfolio of Strategy Initiatives



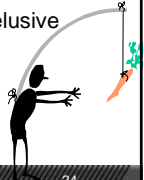
- **“Short-jump”** initiatives to fortify and extend current businesses
 - Immediate gains in revenues and profits
- **“Medium-jump”** initiatives to leverage existing resources and capabilities to pursue growth in new businesses
 - Moderate revenue and profit gains now, but foundation laid for sizable gains over next 2-5 years
- **“Long-jump”** initiatives to sow the seeds for growth in businesses of the future
 - Minimal revenue gains now and likely losses, but potential for significant contributions to revenues and profits in 5-10 years

Source: Adapted from Eric D. Beinhocker, “Robust Adaptive Strategies,” *Strategic Management Journal*, No. 3 (Spring 1999), p. 101

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Risks of Pursuing Multiple Strategy Horizons

- Firm should not pursue all options to avoid stretching itself too thin
- Pursuit of medium- and long-jump initiatives may cause firm to stray too far from its core competencies
- Competitive advantage may be difficult to achieve in medium- and long-jump businesses that do not mesh well with firm’s present resource strengths
- Payoffs of long-jump initiatives may prove elusive



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Strategies Based on a Company's Market Position

Industry leaders



Runner-up firms



Weak or crisis-ridden firms

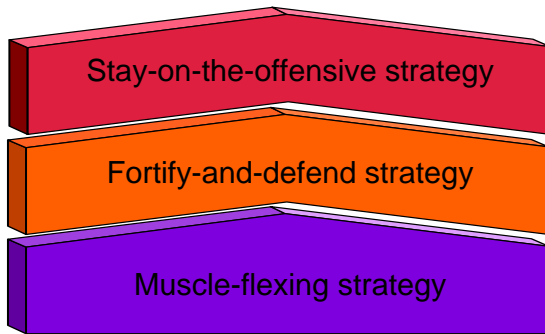


Characteristics of Industry Leaders

- Stronger-than-average to powerful position
- Well-known reputation
- Proven strategies
- Strategic concern -- *How to sustain dominant leadership position*

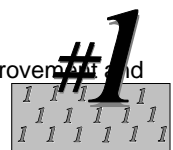


Strategy Options: Industry Leaders



Stay-on-the-Offensive Strategies

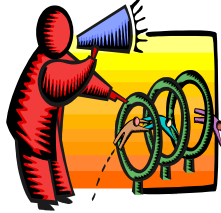
- Be a first-mover, leading industry change
- Best defense is a good offense
- Relentlessly pursue continuous improvement and innovation
- Force rivals to scramble to keep up
- Launch initiatives to keep rivals off balance
- Grow faster than industry, taking market share from rivals





Fortify-and-Defend Strategy: Objectives

- Make it harder for new firms to enter and for challengers to gain ground
- Hold onto present market share
- Strengthen current market position
- Protect competitive advantage



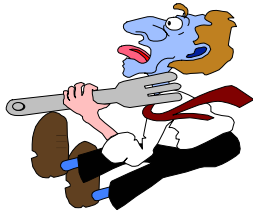
Fortify-and-Defend: Strategic Options

- Increase advertising and R&D
- Provide higher levels of customer service
- Introduce more brands to match attributes of rivals
- Add personalized services to boost buyer loyalty
- Keep prices reasonable and quality attractive
- Build new capacity ahead of market demand
- Invest enough to remain cost competitive
- Patent feasible alternative technologies
- Sign exclusive contracts with best suppliers and distributors



Muscle-Flexing Strategy: Objectives

- Play **competitive hardball** with smaller rivals that threaten leader's position
- Signal smaller rivals that moves to cut into leader's business will be hard fought
- Convince rivals they are better off playing "follow-the-leader" or else attacking each other rather than the industry leader



Muscle-Flexing: Strategic Options

- Be quick to meet price cuts of rivals
- Counter with large-scale promotional campaigns if rivals boost advertising
- Offer better deals to rivals' major customers
- Dissuade distributors from carrying rivals' products
- Provide salespersons with documentation about weaknesses of competing products
- Make attractive offers to key executives of rivals
- Use arm-twisting tactics to pressure present customers not to use rivals' products



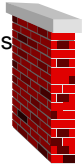
Types of Runner-up Firms

- **Market challengers**
 - Use offensive strategies to gain market share
- **Focusers**
 - Concentrate on serving a limited market
- **Perennial runners-up**
 - Lack competitive strength to do more than continue in trailing position



Obstacles Runner-Up Firms Must Overcome

- When **big size** is a **competitive asset**, firms with **low market share** face **obstacles**
 - Less access to economies of scale
 - Difficulty in gaining customer recognition
 - Inability to afford mass media advertising
 - Difficulty in funding capital requirements



Case #1: Strategic Options for Runner-Up Firms

- When **big size** provides larger rivals with a **cost advantage**, runner-up firms have two options
 - **Build market share**
 - Lower costs and prices to grow sales **or**
 - Out-differentiate rivals in ways to grow sales
 - **Withdraw from market**



Competitive Strategies for Runner-Up Firms: Building Market Share

- Strategic options for building market share to overcome cost advantage of larger rivals
 - Use **lower prices** to win customers from weak, higher-cost rivals
 - **Merge** or **acquire rivals** to achieve size needed to capture greater scale economies
 - **Invest** in new **cost-saving facilities** and **equipment**, perhaps relocating operations to countries where costs are lower
 - Pursue **technological innovations** or radical **value chain revamping** to achieve cost-savings



Strategic Options for Runner-Up Firms Not Disadvantaged By Smaller Size

- Where **big size** does **not** yield a **cost advantage**, runner-up firms have seven options
 1. Offensive strategies to build market share
 2. Growth-via-acquisition strategy
 3. Vacant niche strategy
 4. Specialist strategy
 5. Superior product strategy
 6. Distinctive image strategy
 7. Content follower strategy



Strategies for Runner-Up Firms Not Disadvantaged By Smaller Size

- Best **"mover-and-shaker"** offensives
 - Pioneer a leapfrog technological breakthrough
 - Get new/better products into market ahead of rivals and build reputation for product leadership
 - Be more agile and innovative in adapting to evolving market conditions and customer needs
 - Forge attractive strategic alliances with key distributors and/or marketers of similar products
 - Find innovative ways to dramatically drive down costs to win customers from higher-cost rivals
 - Craft an attractive differentiation strategy



Rule of Offensive Strategy

Runner-up firms should avoid attacking a leader head-on with an imitative strategy, regardless of resources and staying power an underdog may have!



Growth-via-Acquisition Strategies for Runner-Up Firms



- **Frequently used strategy** of ambitious runner-up firms
- To succeed, top managers must have skills to
 - Assimilate operations of acquired firms, eliminating duplication and overlap,
 - Generate efficiencies and cost savings, and
 - Structure combined resources to create stronger competitive capabilities



Vacant Niche Strategies for Runner-Up Firms

- **Focus strategy** concentrated on end-use applications market leaders have neglected
- Characteristics of an **ideal vacant niche**
 - Sufficient size to be profitable
 - Growth potential
 - Well-suited to a firm's capabilities
 - Hard for leaders to serve



Specialist Strategy for Runner-Up Firms

- **Strategy** concentrated on being a leader based on
 - Specific technology
 - Product uniqueness
 - Expertise in
 - Special-purpose products
 - Specialized know-how
 - Delivering distinctive customer services



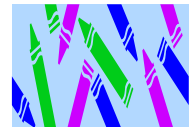
Superior Product Strategy for Runner-Up Firms

- **Differentiation-based focused strategy** based on
 - Superior product quality *or*
 - Unique product attributes
- **Approaches**
 - Fine craftsmanship
 - Prestige quality
 - Frequent product innovation
 - Close contact with customers to gain input for better quality product



Distinctive Image Strategy for Runner-Up Firms

- **Strategy** concentrated on ways to from rivals
- **Approaches**
 - Reputation for charging lowest price
 - Prestige quality at a good price
 - Superior customer service
 - Unique product attributes
 - New product introductions
 - Unusually creative advertising





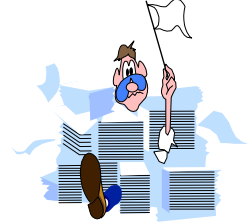
Content Follower Strategy for Runner-Up Firms

- **Strategy** involves avoiding
 - Trend-setting moves and
 - Aggressive moves to steal customers from leaders
- **Approaches**
 - Do not provoke competitive retaliation
 - React and respond
 - Defense rather than offense
 - Keep same price as leaders
 - Attempt to maintain market position



Weak Businesses: Strategic Options

- Launch a strategic offensive (if resources permit)
- Play aggressive defense (to the extent that resources permit)
- Pursue immediate abandonment
- Adopt an end-game strategy



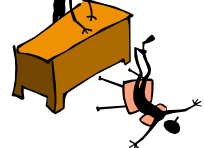
Achieving a Turnaround: The Strategic Options

- Sell off assets to generate cash and/or reduce debt
- Revise existing strategy
- Launch efforts to boost revenues
- Cut costs
- Combination of efforts



Liquidation Strategy

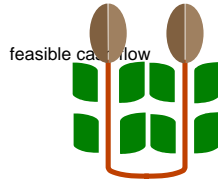
- Wisest strategic option in certain situations
 - Lack of resources
 - Dim profit prospects
 - May serve stockholder interests better than bankruptcy
- Unpleasant strategic option
 - Hardship of job eliminations
 - Effects of closing on local community





What is an End-Game Strategy?

- Steers **middle course** between status quo and exiting quickly
- Involves **gradually sacrificing market position** in return for bigger **near-term** cash flow/profit
- Objectives
 - **Short-term** - Generate largest feasible cash flow
 - **Long-term** - Exit market



Types of End-Game Options

- Reduce operating budget to rock-bottom
- Hold reinvestment to minimum
- Emphasize stringent internal cost controls
- Place little priority on new capital investments
- Raise price gradually
- Trim promotional expenses
- Reduce quality in non-visible ways
- Curtail non-essential customer services
- Shave equipment maintenance



When Should an End-Game Strategy be Considered?

- Industry's long-term prospects are unattractive
- Building up business would be too costly
- Market share is increasingly costly to maintain
- Reduced levels of competitive effort will not trigger immediate fall-off in sales
- Firm can re-deploy freed-up resources in higher opportunity areas
- Business is not a major component of diversified firm's portfolio of businesses
- Business does not contribute other desired features to overall business portfolio



10 Commandments for Crafting Successful Business Strategies

1. Always put top priority on crafting and executing strategic moves that enhance a firm's competitive position for the long-term and that serve to establish it as an industry leader.
2. Be prompt in adapting and responding to changing market conditions, unmet customer needs and buyer wishes for something better, emerging technological alternatives, and new initiatives of rivals. Responding late or with too little often puts a firm in the precarious position of playing catch-up.



10 Commandments for Crafting Successful Business Strategies

3. Invest in creating a sustainable competitive advantage, for it is a most dependable contributor to above-average profitability.
4. Avoid strategies capable of succeeding only in the best of circumstances.
5. Don't underestimate the reactions and the commitment of rival firms.



10 Commandments for Crafting Successful Business Strategies

6. Consider that attacking competitive weakness is usually more profitable than attacking competitive strength.
7. Be judicious in cutting prices without an established cost advantage.
8. Employ bold strategic moves in pursuing differentiation strategies so as to open up very meaningful gaps in quality or service or advertising or other product attributes.



10 Commandments for Crafting Successful Business Strategies

9. Endeavor not to get "stuck back in the pack" with no coherent long-term strategy or distinctive competitive position, and little prospect of climbing into the ranks of the industry leaders.
10. Be aware that aggressive strategic moves to wrest crucial market share away from rivals often provoke aggressive retaliation in the form of a marketing "arms race" and/or price wars.