The positioning school essay

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The key to a firm's success is a function of its formation and implementation of a good strategy. There are two schools of thought on strategy development; the resource-based view of strategy and the positioning school. Both agree that the creation and sustaining of a competitive advantage is essential to a firm's performance in competitive markets however have conflicting views on how to achieve it. The positioning school provides a procedure to asses the attractiveness of prospect industries and then looks at three generic strategies for establishing a competitive advantage: cost leadership, differentiation and focus.

The resource based view of strategy however, is focused around the importance of the role of managers and views the firm as a collection of capabilities and derives its competitive advantage from its ability to assemble and exploit an appropriate combination of resources. Sustainable competitive advantage is achieved by continuously developing existing and creating new resources and capabilities in response to rapidly changing market conditions. Positioning determines whether a firm's profitability is going to be above or below the average of the industry.

The profitability of a firm depends on the market level economics (the five forces) but also the amount of economic value created by the firm relative to its competitors. The five forces framework uses the existence of barriers to entry, buyer power, supplier power, existence of internal rivalry and the availability of substitutes and complements to determine the attractiveness of an industry. The collective strength of these forces in an industry indicates the potential threat to an industry's profits that all firms must cope with to survive.

It can do this by either positioning itself to outperform rivals by developing a cost or differentiation advantage or identifying an industry segment where due to a niche market there is less competition and the five forces are less severe. Alternatively a firm can also choose to change the five forces by using an entry deterring strategy or reducing internal rivalry or reducing buyer supplier power through tapered integration. To achieve a competitive advantage the value created must be greater than the firm's cost of creating it and higher than its competitors.

Value is the perceived benefit that buyers have for your product minus the cost of producing it. So greater value is created by offering lower prices for the same benefit as competitors (cost advantage) or providing greater or unique benefits than competitors that offsets the higher price (differentiation advantage). These advantages result from the firm's ability to cope with the five forces better than their competitors. Cost advantage strategy aims to become the low cost producer in an industry. The firm caters to many market segments which may also include related industries as it has a broad scope.

There are several ways to obtain a cost advantage, one being by exploiting economies of scale by reducing the average cost by producing a greater quantity, thus creating a benefit parity; a product that offers the same benefit at a lower cost. Another is by creating a benefit proximity by offering benefits that are not much lower than competitors' at a lower cost. However, the cost advantage must outweigh the benefit disadvantage thus creating higher value than competitors. Lastly by redefining a product different to rivals can yield substantial differences in benefits or costs.

In a differentiation strategy a firm looks to be unique with respect to other firms in the same industry. It does this by selecting one or more attributes that highly affects the consumers' perceived benefit and positions itself uniquely to simply attends to those needs. Having this uniqueness creates a benefit advantage that enables it to charge a higher price which is called cost proximity; however the benefit advantage must outweigh the cost disadvantage. Alternatively it can create a cost parity, where it provides higher benefits for the same price. Either way it manages to create a higher value than its competitors.

The focus strategy is unlike the other two in the sense that it looks at a narrow competitive scope within an industry. It offers a single product or serves a single market or sometimes both. The firm optimizes its strategy only for the aim of achieving a competitive advantage in its certain area instead of overall. A firm can choose to gain a cost advantage in its target segment, or a differentiation advantage. The target segments have consumers with unusual and unique needs. The cost focus strategy exploits the cost behaviour in certain segments whereas the differentiation focus strategy exploits the special needs of these consumers.

This indicates that these segments are unsatisfied with the way in which it is served by the broad range targeting competitors. So the focus strategist can gain a competitive advantage by catering only for this particular market segment and thus providing only for their needs and not the needs of any other consumers. The resource-based view of strategy unlike the positioning school focuses on firm specific structure rather than industry specific structure. It is a combined view of the role of general managers and the resource-based view of the firm (RBVF).

Managers are seen as responsible for undertaking efforts to achieve the corporate goals in a changing environment. The RBVF unlike the positioning view assumes that products are produced using not only factors of production but also resources. There are two different resource based views of the firm. The first (RBVF1) is concerned with the role of firm-specific resources in an industry structure that is relatively stable whereas the second (RBVF2) is concerned with the competitive success of firms as a whole in an industry structure is potentially unstable.

RBVF1 sees the differences in the profitability of firms to be sustained over time. What is important unlike in the positioning view is not how markets operate, but what determines firm-level outcomes. According to RBVF1, firms are different from one another and what distinguishes them are their individual resources. These resources can be divided up into to categories; distinctive capabilities and assets.

Distinctive capabilities are function of knowledge acquired through experience, embodied in organizational routines, assets however are the other " economic" factors like assets protected by patents, assets that are time-consuming, costly, and otherwise difficult to replicate. RBVF1 suggests an industry structure where unlike the main basis of the positioning school, the pressures of competition have a limited influence over firm-level profits because when activated, it permits a business to sustain a competitive advantage within a given industry, even when rivals seek to replicate their strategies.

RBVF1 put together with the view of the role of managers gives us one specific version of the resource-based view of strategy. The second resource based view of the firm RBVF2 also called the dynamic capabilities approach is different from the first view in that it concentrates on competition among technologies rather than among products. The implication of this approach is that to be profitable in the long-run, the firm must come to own the eventual winning technologies.

RBVF2 suggests an industry structure that is unstable due to competition among technologies. It focuses on the cultivation of resources (competences) in order to increase the firm's potential to own the future winning technologies Though both RBVF1 and RBVF2 are different they aren't apposing views rather they can be used together. RBVS based on RBVF1, is especially relevant to managers at the business-level, whose time horizons are typically much shorter than the long-run.

Establishing a sustainable competitive advantage within stable industry is appropriate for their role. RBVS based on RBVF2, however is more relevant to managers at the corporate level (e. g. , CEOs), whose time-horizons are possibly longer than those of business-level managers. Both the positioning view and the resource based view of strategy give conflicting prescriptions on how to achieve a competitive advantage. Michael Porter's five forces model, focuses on the company's external competitive environment whereas RBVS looks inside the company.

RVBS highlights the need for a fit between the external market in which a company operates and its internal capabilities. Its perspective is that a firm's internal environment, in terms of its resources and capabilities, is more critical to the determination of strategic action than is the external environment. The strategy chosen should allow the firm to best exploit its core competencies relative to opportunities in the external environment.

In RBVF1 the first step in formulating business strategy is to assess the business's resources (i. e. , its assets and distinctive capabilities) rather than the industry structure. The implication for managers is that decisions on how to position businesses in certain industries should be based on assessments of the firm's resources, rather than on configuring the value chain on prior business positioning decisions as prescribed by Porter.

The RBVF2 is more focused on the " distinctive capabilities" of firms which can be seen as a snap-shot of an evolving process. The capabilities in period 0 are a function of the firm's experience during previous periods. Formation of experience into capabilities can be called learning; these lessons drawn from experience are used to create organizational routines. There is no section in Porter's positioning school that is similar to these arguments as this views markets as unstable whereas Porter views them as stable.