Report on business level strategy

Business, Strategy

BUSINESS LEVEL STRATEGY Any given organization may comprise a number of different businesses. Each operating in distinct markets and serving different customers. A market is defined by demand conditions and based on an organization's customers and potential customers. Industry is determined by supply conditions and based on productiontechnology. Business level strategy is a means of separating out and formulating acompetitive strategyat the level of individual business unit.

This is sometimes referred to as a Strategic Business Unit (SBU). A Strategic Business Unit is a distinct part of an organization which focuses upon a particular market or markets for its products and services. The parent company sets the overall or corporate strategy. The role of the business unit is to devise a strategy which allows it to compete successfully in the marketplace and to contribute to the corporate strategy. GENERIC STRATEGY

A sustainable competitive advantage is about performing different activities or performing similar activities in a different ways. In other words, the firm must be capable of producing value for the customer that is recognized as being superior to that of its competitors. Michael Porter (1980) developed three generic strategies to help an organization outperform rivals within an industry, and so successfully position itself against the five forces.

These strategies are referred to as generic because they apply to different types of organizations in different industries. The first of these three strategies is called Overall CostLeadership. A cost leadership strategy involves a firm being the lowest cost producer within the industry. This allows the firm to outperform the rivals within the industry because it can charge lower prices and its lowest cost base still allows it to earn profit. In effect, this firm can charge the lowest price within the industry which the rivals simply cannot match.

Therefore, a cost leadership strategy allows the firm to make superior profits. A Differentiation Strategy is based on producing products or services which are perceived by the customers as unique or different. A differentiated product has the opportunity to meet different customer needs more closely. It is the difference that is the basis on which the customers are prepared to pay a premium price. Clearly, the cost of producing differentiation must not outweigh the price being charged.

Or, put another way, customer should be prepared to pay a price which exceeds the costs of differentiation, thereby allowing the organization to earn superior profits. The third Strategy is referred to as a Focus Strategy. A Focus Strategy allows an organization to target a segment of niche within a market. The segment may be based on a particular customer group, geographical markets, or specific product lines. Unlike overall cost leadership and differentiation strategies which are industry-wide, a focus strategy is aimed at serving a particular target market efficiency.