

The porters generic strategies management essay



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The writer had chosen Porter's Generic Strategies as the research topic. The writer had done related analysis for the research. Organisations or companies that apply Porter's Generic Strategies to seek competitive strategies to achieve and sustain competitive advantage as the competition among organisations or companies is getting more and more intense. The writer had decided to focus on Cost Leadership Strategy in Porter's Generic Strategies.

2. 0 Definition of Strategy

Strategy, is a type of action, becomes necessary in a situation, to achieve a particular goal, when the accessible resources are not sufficient. According to Waters (2006), strategy is more than a set of decisions and it includes all of the factors that affect long-term performance. Therefore, strategy can be defined as an efficient use of the available resources to achieve the main goal.

Strategy is also the direction or scope of an organisation over the long-term, which to achieve competitive advantage for the organisation in the market within the challenging surrounding, to meet the needs of markets and to fulfil stakeholder expectations. " Strategy is a deliberate search for a plan of action that will develop a business competitive advantage and compound for it." (Montgomery 2002). There are 3 levels of strategy, which are Corporate Strategy, Business Strategy, and Functional Strategy.

Corporate Strategy is analysing and evaluating business opportunities in areas with complementary activities. Thompson (2001) stated that this

strategy is the direction and specific strategies chosen by different organisations in their search for distinctiveness, competitiveness and success. Corporate level strategy is anxious about the objectives of the corporation and how the business should be managed. This strategy is used to determine where in the corporation competition is to be localized.

Business Strategy is to determine how a corporation should compete in its businesses. According to Kumar (2010), " Business level strategies are essentially positioning strategies whereby businesses tend to secure for themselves an identity and position in the market." It is aim to evaluate competitors in order to gain competitive advantage in the industry. Besides that, this strategy is use to foresee changes in demand and technologies. It also used to influence the competition through strategic actions.

Functional Strategy is the level of operating divisions and departments. It is mainly focus on operating and executing the decision from the business strategy and corporate strategy. According to Kumar (2010), " This level of strategy is extremely significant in shaping the success of other strategies as it translates strategic decisions into strategic actions by directly impacting the design of operational processes and networks, human and other resources etc."

2. 1 Porter's Generic Strategy

Porter's Generic Strategies is a category of strategies consisting of three general types of strategies that are mostly used by businesses to achieve and maintain competitive advantage. Porter's Generic Strategies including

three types of strategies, which are cost leadership, differentiation, and focus strategy.

2. 1. 1 Cost Leadership

Cost leadership is a strategy that having lowest operational cost and lowest prices in the target market segment. The low cost leader in any market gains competitive advantage from being able to many to produce at the lowest cost. When a firm implements this strategy, the firm can compete with other firms and get higher profits. This will benefit the price sensitive customers.

Firms that implement cost leadership strategy will have high level of productivity and high capacity of utilization. For an example, Air Asia, the low cost airline industry giant had implemented this strategy. Air Asia had been well known as a low cost producer. Air Asia had cut off free drinks and food for passenger in short flight. It renewed its plane to Airbus A380 which provides more than one thousand seats. The big plane maximised passengers in minimum flights.

2. 1. 2 Differentiation

Differentiation strategy is a strategy that differentiates the product by a firm from others in a same industry. It is to develop a product or service that is unique and valued by customers. Differentiation is needed when there are specific demands from customers. When the products or services become unique, the average price will be increase. There is also the chances that differentiation copied by rivals, and this will be and improvement in the industry.

A good example for differentiation would be the Coca-Cola Company. The unique and special coca-cola recipe is formulated in the 19th century. The unique recipe had not been copied throughout the century. Another company that has differentiation strategy is Apple Inc. Apple Company had made great innovation in electronic industry. iPhone, MacBook, iPad and iPod had make a great impact on innovation of electronic industry. Those unique products from Apple had ensured the company becomes the best seller in electronic industry.

2. 1. 3 Focus Strategy

The focus strategy focuses on a narrow segment and within that segment attempts to achieve a competitive advantage. In applying a focus strategy, the company ideally concentrates on a few target markets to satisfy different groups with specialized needs. Due to the narrow segment focus by the company, the volume of products would be low, therefore the less bargaining power from the suppliers and customers. A firm using focus strategy enjoys higher degree of customer loyalty.

A good example of focus strategy would be the Haagen-Dazs company. Haagen-Dazs is a luxury ice-cream brand which established in 1961. Haagen-Dazs had experimented, tested and ultimately perfected the world's finest ice-cream. Haagen-Dazs focus on ice-cream segment had make the company become the most successful luxury ice-cream company in the decade. Haagen-Dazs focusing on the industry had ensured it to have continuously improvement over years.

2. 2 Benefits and limitations of Porter's Generic Strategy

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The main benefit of companies or organisations that using Porter's Generic Strategy could gain competitive advantage. Organisations which apply cost leadership strategy will enjoy a higher average profit from their products. Reducing the production cost will lead a higher profit gained even products is traded with average price. Organisations could gain advantage in price war for the products. Customers' demand on a differentiated product will be less elastic than that for products by competitors. Therefore, differentiation strategy can create an additional barrier for market entry for newcomers. Focus strategy comprise lower investment in resources and organisations could benefits from the specialisation provided by the organisations. Organisations that adopt focus strategy will enjoy a high degree of customer loyalty.

Porter's Generic Strategy is useful but it has its limitation. Cost leadership strategy that an organisation applied could be easily simulated by competitors. Risk for this strategy is customers with low loyalty. When there is a lower price product, customers will go for it. As technology improves, competitors may be able to surpass the production capabilities.

Differentiation strategy will involve greater cost. Competitors might get copy the products and eliminate the differentiation. Price sensitive customers might choose on price rather than uniqueness. Organisation that apply focus strategy have limited opportunities to growth as its only focus on narrow scale. It forgoes the economies scale that would be available from larger market.

3. 0 Research Industry and Company

3. 1 Industry

In order to complete the research, the writer had chose airline industry for the research topic. Airline industry had been growing rapidly for past few years as people becoming more likely to travel with airplane. According to Cento , “ during these years, a group of airlines, know as low-cost carriers, were able to generate profits and positive growth by generating a cost advantage, no frills, and a point-to point network business model...” The writer had chosen Air Asia Berhad and FireFly Airline as the research companies.

3. 2 Air Asia Airline Company Background

Air Asia Berhad, is a Malaysian-based low cost airline. Air Asia was founded in 1993. Air Asia is the largest low-cost airline and a pioneer of low-fare travel in Asia. On December 2011, Air Asia was sold to Tony Fernandes. Tony Fernandes was introduced the first budget no-frills airline with the tag of “ Now everyone can fly”.

3. 3 FireFly Airline Company Background

FlyFirefly Sdn Bhd, operate as Firefly, is a low-fare airline that based in Malaysia. It was founded in year 2007. Its head office is located on the grounds of Sultan Abdul Aziz Shah Airport in Subang, Selangor. Firefly is actually fully owned by Malaysia Airlines, but it has different management.

4. 0 Customer Expectation the Industry

Customer expectations are the trusts about service delivery that serve as standards or reference points against which performance is judged. In airline industry, customers expect to get good services. Customers wish to get low fare tickets. Customers expect to short check-in time. In most of the airport, there is a long queue at the check-in counters. Customers would not likely to waste their time for waiting. Customers expect to easy access to the airport. They wish to have transport provided by the airport so that it is convenience to reach airport. Easy access to airport will be the expectations of customers. Customers expect to have cheap food and beverages when travelling with aeroplane. Customers wish to have refreshments in the plane to reduce fatigue during a long flight. Customers will expect seats in plane to be comfortable. During the flight, customers expect the flight attendance to be polite.

4. 1 Activities of Air Asia and FireFly in delivering customers expectation

Air Asia provides lowest price tickets. Air Asia provided a web check-in service so that customers don't need to wait for long queue at the check-in counter. Air Asia provides cheap cab rental for customers that are far away from the airport. The flight attendance in the airplane is friendly and polite to the passengers as Air Asia knew that linkage between guests' satisfaction is a long term success.

FireFly Airline has very low price tickets for customers. FireFly does have web check-in service in its website to avoid long queue which will dissatisfy the customers. The seats in FireFly airplane are broad and comfortable.

Passengers enjoy complimentary refreshments when on board a Firefly flight

served by the attentive cabin crew. Besides that, FireFly flight attendance as FireFly recognize the linkage between guests' satisfaction is long-term success.

4. 2 Similarities and differences between Air Asia and FireFly

The similarities of Air Asia and FireFly are the both companies had the lowest fare for the customers. They both provide web check-in services for the customers so that customers would not need to queue up and wait for long time just to check-in.

The differences between Air Asia and FireFly are Air Asia provides rental cab services but FireFly does not provide the service. Seats in Air Asia airplane is up straight and is uncomfortable but FireFly airplane seats is broad and comfortable. FireFly provides complimentary refreshments for passengers in a long flight but Air Asia has snack for sell on plane.

4. 3 The areas of Air Asia delivering customer expectation and not delivering customer expectation.

Air Asia has the lowest fare flight. Customer felt happy as they could travel in low cost. Web check-in service for customer would have delighted customers as they do not need to wait in a long queue. Passengers felt satisfy for the flight attendance in Air Asia due to their friendliness and politeness.

Air Asia does not provide refreshment for passengers to cut cost. Customers felt dissatisfy as they have to buy expensive snack in plane even tough in a long flight. Seats in Air Asia are up straight and very uncomfortable. In a long flight, this will deal high degree of fatigue to their backs.

4. 4 The areas of FireFly delivering customer expectation and not delivering customer expectation.

FireFly has the low fare flight. Customer felt satisfy as they could travel in low cost. Customers are satisfy and happy for the web check-in service as they do not need to wait in a long queue. Passengers felt satisfy as they could have free refreshment on board. Passengers are happy with the comfortable seats provided by FireFly. Passengers felt satisfy for the flight attendance in FireFly due to their friendliness and politeness.

Firefly does not provide cab rental services for customers. Customers that live far away from its airport could not reach airport easily. Customers would feel unhappy. Besides that, there is only one FireFly airport. Customers felt unhappy as the accessibility to FireFly airport is low.

5. 0 Conclusion

After the research about Porter's Generic Strategy, the writer is more understand about business strategy. It is use to maximize the performance of an organisation in the market. With Porter's Generic Strategy, an organisation could gain more competitive advantage in the market. However, not every organisation is suitable to implement three strategies. Different organisation in different industry would have applying different type of strategy.

Before selecting which strategy is the most suitable for an organisation, the leader should ask few questions. The first question is, " should we compete on low cost basis, or should we differentiate the products or services to gain

more advantage?" Then, the second question would be, " should we compete head to head with our main rivals for the market share, or should we focus on just a market segment which is profitable?"

In the writer's opinion, the selecting of strategy to be implemented is crucial as it will be affecting the organisation for a long term. Organisations should have review their strengths and weaknesses and pick the most appropriate strategy according to the business nature.

6. 0 Recommendation

In the writer's opinion, both companies can do better in delivering customers expectation. As for Air Asia, the company could provide some free refreshments such as pastries, or fruit juice for passengers on board.

Passengers will feel happy for this. The snack and drinks sold in Air Asia is very expensive. Air Asia could reduce the selling price of food and beverage. Besides that, the cab rental service provided by Air Asia is very costly. Air Asia could have some effort to adjust the fare for cab rental.

For FireFly Airline, the company could provide transportation service such as cab rental for customers. Even though FireFly is located nearby town, a cab rental services are for customers live far away from town. FireFly could do some promotion to attract more customers, such as half price promotion. Customers felt happy to get cheap travelling.

Part B

7. 0 Michael Porter Value Chain Diagram

Value Chain is a business management concept which introduced by Michael E Porter (1985). Satya Sekhar (2010) claimed that “ The purpose of value chain analysis is to measure the value delivered and the profit contributed by each link of the chain”.

Michael Porter Value chain diagram consist of two groups, which are Primary activities and Support activities. Primary activities consist of 5 elements that are inbound logistics, operations, outbound logistics, marketing and sales, and service. Support activities consist of 4 elements that are firm infrastructure, human resource management, technology development and procurement.

For the primary activities, inbound logistics is the management of the flow resources from a point to another point to meets some objectives.

Operations is the process where value is added during raw materials and goods are manufactured into final products. Outbound logistics is the process where final goods or products are distributed to retailers, wholesalers or customers. Marketing and sales is to identify the correct customer group to be targeted for the products. Service is more towards on after sales services, guarantees and warranties.

For the support activities, procurement is the purchasing of raw materials for the business and gets the best price for doing so. Technology development is a process where increase the technology usage in a firm to gain competitive advantages. Human resource management is to recruit, training and develop employees as employees is an important asset to the company. Firm

infrastructure refers to the finances, legal structure and management structure in work.

In the writer's opinion, Porter's Generic Strategy is in the primary activities. The writer thinks that Porter's Generic Strategy is in the activity marketing and sales. As mentioned above, cost leadership is strategy which to reduce cost in order to gain higher profit. Differentiation could produce unique product to meet the specific requirement from customers. Focus strategy is to focus on certain segment of markets to improve the products. Those strategies fall under marketing and sales activities as the strategies is marketing skills for companies.