

The generic strategies used by organizations



This essay provides a rundown on the basic application of generic strategies in two organizations that are in different industrial sectors. In lieu to this essay, the chosen two organizations are both multinational companies and are manufacturer of goods that is primarily driven by the companies' respective expertise on modern innovations. The two organizations being chosen has proved their mark in the business, thus exploring on their current generic strategies is interesting. Nike and Honda motors, are in the shoe industry and in automotive industry pertaining to the latter. Further, since both are not domestic organizations, accessibility to primary data are barely unachievable though the supporting data can still purport to the critical analysis that is to be made by the two organizations. To begin with, an overview of the nature of generic strategies would be of help to better understand the whole context and useful in the formulation of critical analysis for the current generic strategies being employed by Nike and Honda.

Generic strategies was formulated by Michael Porter that has considered a category scheme consisting of three typed of strategies being employed by businesses. These are the level of differentiation, relative product cost, and scope of target market. Further, these three generic strategies are defined along two dimensions namely strategic scope and strategic strength. By strategic scope connotes the demand-side which focuses on the marketplace factors and the strategic strength on the other hand, connotes the supply-side in which it focuses internal environment of the company that would serve as the company's competitive advantage. However in the year 1980 in his classic book *Competitive Strategy: Techniques for Analyzing Industries*

and Competitor (Porter 1980), he altered the category scheme into cost leadership, differentiation and market segment or also known as the focus segment. To simplify the three revised and simplified generic strategies category scheme for business, an illustration of the Porter's generic strategies will be shown in the diagram below:

Cost leadership strategy place emphasis on efficiency through the production of high volumes and standardized products in order to take advantage the scale of economies and the curve effects being experienced. Researches about the impact of profit on the market share indicated that firms with high market share were often profitable and so does with low market share, but for the firms with moderate market shares are the ones that is likely to be least profitable. Porter (1980) explains, high market shares were successful because they pursued a cost leadership strategy and firms with low market share were successful because they used market segmentation to focus on a small but profitable market niche. The association of distribution strategy, on one hand, is in the acquisition distribution channels that is extensive, whereas, the promotional strategy, on the other hand, engages in the virtue from the low cost features of the products. Several benefits can be reaped off from the successful implementation of the cost leadership strategies. Among the several benefits that it can bring are the processing of engineering skills, the design of the products that provides easeness in the manufacturing process, sustainable accessibility to capital that is inexpensive, supervision of labour can closely be supervised, tightened control of the cost and the incentives based on quantitative targets.

The second named generic strategy comes in the form of differentiation that pertains the creation of the product that is innovative. The innovativeness of the products that will be created would mean that there is a tendency of reduction in the price elasticity of demand and customers are likely to be brand loyal due to the fact that customers' in any sense is willing to spend more provided that they get a good deal of the products and that customer's are getting back their money's worth.

The last generic strategy to be previewed is the segmentation strategy wherein target markets are being filtered to come up with a selected and specialized markets. Therefore, tailoring the marketing mix to these specialized market enables company to cater the needs of the selected target market which in turn can gain competitive advantage such that the demands of the target market are being meet.

Despite of the great contribution Porter has made, criticisms rose and challenges the use of generic strategies claiming they lack specificity, lack flexibility, and are limiting. For the critics, the application of generic strategies is like trying to get everything be perfectly fit into a peg but the bottom line is that generic strategies would not be a perfect fit. Michael Treacy and Fred Wiersema (1993) have modified Porter's three strategies to describe three basic " value disciplines" that can create customer value and provide a competitive advantage. They are operational excellence, product innovation, and customer intimacy.

Main Part

HONDA

The redefinition of motor-cycle market in the United States is a classic case in corporate strategy. The penetration of Honda in the United States market was being marketed under the slogan “ You meet the nicest people on a Honda”. Honda’s strategies succeeded because the strategy was an archetype of Japanese penetration on the Western Market (e. g. like that of Shiseido). According to Boston Consulting Group (1975), the aggressive pursuit of domestic volume has established a low-cost in the expansion overseas. On the contrary, Pascale (1984) asserted from his interview to Mr. Honda that “ Mr Honda was especially confident of the 250 cc and 350 cc machines. The shape of the handlebar on these larger machines looked like the eyebrows of Buddha, which he felt was a strong selling point.” Currently, the continuing commitment of Honda to make innovative automobile that not only provides consumers with reliable cars but also the manufacturing of automobiles that cuts the cost of fuel consumption by enhancing fuel efficiency.

Strategic scope and strategic strength

Honda as being in an automobile manufacturing industry markets to the people especially into the world’s major busy cities where buying an automobile is almost a must to keep going and stay away from the fuzz of commuting in the morning rush and in the late afternoon traffic. At Honda even though they are not the number one in automobile industry, they provide means in which to give people an alternative by introducing cars that is fuel-efficient in response to the unpredictable rise of fuel consumption.

The heart of Honda's strategic strength is the capabilities to produce innovative yet simple, low-cost products. Honda's competitive advantage over the rest of automotive manufacturers is not the flashy design of automobiles but lies in the strategic differentiation strategy being employed by Honda especially in the quest of developing new innovative means to enhance fuel efficiency without the extra cost.

Cost leadership strategy

Honda as being founded by Japanese, the value for diversity is prevalent. Mirrored from the core of Honda's philosophy is the principle or respect for the individual with attached components of trust, initiative and equality that guides Honda in all of its business operations. Accordingly, Soichiro Honda says, " Action without philosophy is a lethal weapon; philosophy without action is worthless." Evidence from case studies also supports the view that firms of different national origins will tend to pursue different competitive strategies (Hamel and Prahalad 1985; Hout, Porter and Rudden 1982). This may reflect different organizational cultures (Hofstede 1980; Haire, Ghiselli and Porter 1966), or alternatively, the formulation of competitive strategy in response to environmental conditions in the domestic market, which are then carried over to foreign markets. In Honda the recognition of the need to embrace diversity as having a diverse workforce, diverse dealer body and diverse team of suppliers proves to be as one of their competitive advantage. In the dealer aspect, Honda continues to enhance the number of minority-owned dealers via the dealer development programs. Even though minority-owned dealers are considered to be a small time dealings, but in Honda they believe in the power of small time dealings making it big in the

future that might as well spells profitability to Honda. In line to the enhancing of the number of minority-owned dealers, Honda establishes the American Honda Dealer Investment program aims in lowering financial barriers for qualified dealer candidates.

Differentiation strategy

The differentiation strategy is not at all easy to maintain since the expenditure of huge amount of money and resources should be pulled together to make the differentiation strategy to be effective. Among the factors that contributes to the effectiveness of differentiation strategy are design, brand image, reputation, technology, product features, networks and differentiated customer service that can barely be imitated.

At Honda they are very particular in inventing automobiles that is not harmful to the environment as part of their goal in making environmentally friendly products and Honda is being characterized by its simplicity that is evident as the brand image Honda wanted to project in the market. Several milestones and recognition has been awarded to Honda in terms of the organization's promotion of protecting the environment. To name a few recognition that Honda received as being environment friendly are, the introduction of the first car to pass the emissions requirement of the Clean Air Act without a catalyst (CVCC Civic model), development of the first fuel cell electric vehicle in the world, the first gasoline-powered car sold in California to meet the Super-Ultra-Low Emission Vehicle standard, Named the cleanest internal-combustion vehicle on earth by the EPA, the development of a the car Civic GX that runs entirely on natural gas so it is therefore pollution free vehicle, and the certification from the international <https://assignbuster.com/the-generic-strategies-used-by-organizations/>

environment management standards (ISO 14001) to all major Honda plants worldwide.

The mandate by Mr. Honda “ Do Not Imitate” is a challenge being given especially to the Resource and Development to constantly challenge themselves in seeking out for new initiatives and to remain as front runners in innovation. In 2001, Tochigi R&D center was opened as the world’s first indoor all-weather facility. Consequently in 2003, an Automotive Safety Research Facility featuring seven advanced safety testing laboratories. Proving to the world of the commitment of Honda to quest for innovations that is a strong and valuable competitive advantage they have engulf in the organization.

Segmentation strategy

Honda’s realization of the full use of segmentation and involved the creation of a distinctive distribution network and the differentiated products and services Honda has been offering. The target market of Honda is the mass-market model such that they can exhibit its greatest impact on clean air and fuel economy. The Power of Dreams embodied by Honda envisions the development of vehicles for the future while improving the existing technologies. The introduction of continued advancement of internal combustion engine technology and new generation of gasoline engines would provide the world with extremely low emission levels and increased fuel efficiency.

Conclusion

The focus of Honda is in the generic strategies of differentiation and cost leadership strategies. With great emphasis on the differentiation strategy, has equipped Honda strong points in what the future has yet to unfold. The anticipation of the future will enable them to be very potentially potent to be emerging as the number one automotive choice in the world since their continuing efforts in innovating cars that is fuel efficient yet environment friendly. Despite in the argument of Porter (1980) saying that cost leadership and differentiation are such fundamentally contradictory strategies, requiring such different sets of resources, that any firm attempting to combine them would wind up “ stuck-in-the-middle” and fail to enjoy superior performance. However, in support of the generic strategies being employed in Honda, Hill (1988) argued that sustainable competitive advantage rests on the successful combination of these two strategies.

NIKE

Who in the world did not hear anything about Nike? Nike as a very prominent brand in the shoe industry with a check mark as its trademark had started its operation 33 years ago that is founded by Bill Bowerman, the legendary University of Oregon track & field coach, and Phil Knight, a University of Oregon business student and middle-distance runner under Bowerman. Nike caters primarily to the athletes worldwide whose mission has always been to provide a competitive edge, to help athletes perform better climbing the inside the athletic mind, feeling every beat of the athletic heart, flexes, bends, twist and torque every inch of athletic sinew and muscle. It's not easy, but it's natural for us. We're athletes. From the mission statement of Nike, the enduring commitment to athletes entails a mission to bring

inspiration and innovation to every athlete in the world. Similarly Bowerman quoted “ if you have a body, you are an athlete. Moreover, Nike’s total revenue for fiscal year 2005 reported an amount of \$13. 7 billion as their net revenue, a 12 percent increase from the fiscal year 2004.

Strategic scope and strategic strength

The strategic scope of Nike is to cater to every athlete and the aspiring athletes all over the world that will be characterized by innovative features from the shoes, to apparels and gears. The market of Nike is very much diverse in nature yet the market is particularly promising such as the market is not only limited to athlete but the people from all walks of life who does exercise or just have fun in playing.

The strategic strength of Nike is in the innovation they have been creating for the people especially for the athletes who wants something new to show off and sports enthusiast who have a fetish for wearing unbelievably innovated shoes. Like for example, the product Nike Shox who has a distinct feature that is capable of shock absorption.

Cost leadership strategy

Nike as being the number one footwear brand works with the top suppliers. An issue that circulates in the contract factories of Nike has been pervasive and needs to look into. The disclosure of the contract manufacturing base opens for the prospect to a deeper level of collaboration with Nike’s stakeholders as a response to the working conditions in manufacturing industry and for the reason for the said disclosure is to enable brands sharing of information regarding about compliance performance and duplication efforts would be minimal. Nike believed that the creation of <https://assignbuster.com/the-generic-strategies-used-by-organizations/>

mechanisms that enable corporate responsibility, in which Nike has been struggling, is when the forces of market enable corporate responsibility to occur in a widespread context. In the corporate responsibility report (2005), Nike's inability to gauge progress in the organizations goals necessitates them to established plans setting targets as key objectives for Nike team to pursue for this year (2006)

Differentiation strategy

Nike relies more on the differentiation strategy and presumably it is the strategy where they excel. Versatility as the strength of Nike goes beyond its basic function of impact protection such that Nike can shape and tuned to cater the demands of athletes in a detailed manner. Needless, to say Nike's footwear are being customized to meet the standards of the athletes and the people in general. Aside from the innovative features of their footwear, Nike's apparel has had a share in the invention of innovative designs and high performance fabrics they have been using to produce their apparel products. The FIT technologies regulates the management of temperature conditions and moisture to help athletes train and compete in any sort of conditions without affecting athlete's performance. Three FIT technologies are being used in Nike, the dri-fit, thermal fit and Nike sphere thermal.

Behind every innovative invention are the brilliance of the man and woman in the research and development combined with state-of-the-art research facilities. In Nike, researchers are being subdivided accordingly to its field of expertise: these are the biomechanics, the study of human movement and related forces; the physiology, study of the integration of body's energy system and responses to environmental stresses; and sensory/perception, <https://assignbuster.com/the-generic-strategies-used-by-organizations/>

the evaluation of subjective product attributes. All of the specialized fields take into account the possible sources of confounding factors such as gender, skill level, geography and age. Given these considerations before taking into account the dynamics of invention, Nike has been considered the master of innovation in shoe industry. It is amazing to note that the careful and meticulous attention to details enables Nike to produce innovative features in their products that sometimes just gets people in awe as to how they are able to come up with such products especially to athletes.

Segmentation strategy

Nike has penetrated the market and was able to focus on the different facets of footwear. In every stores and boutique, every Nike products are being sort out in the shelves according to it's shall I say, function. For example, the labeling of the shoes as being for basketball, tennis, cross-training or running, that enables customers to know exactly what they are looking for. In the segmentation strategy, they have been very specific to their target market, whether for boys, girls, children, men and women.

Conclusion

Nike's total sales in the United States for the fiscal year 2004, accounted for 23 percent of total sales, whereas the non-U. S total sales accounted for approximately 13 percent, meaning, Nike may have done well in the United States market since Nike is from the United States and American people are fanatic with sports and has a high purchasing power. Or perhaps, the reason lies in the defect in the cost leadership strategy which may have had affected Nike in terms of sale. Price is out of contention in this matter, according to Lynch and Ariely (2000) found that price might be ignored as <https://assignbuster.com/the-generic-strategies-used-by-organizations/>

long as the product-customer fit is enhanced. U. S. firms have been found to place greater emphasis on product quality, and less on new product development, promotional expenditure or pricing in overseas markets (Craig, Douglas and Reddy 1987; Douglas and Craig 1983; Scheeweis 1983).

The reputation of Nike in the market is unquestionable. Nike's dominant generic strategy is in the differentiation strategy wherein the other two generic strategies may not be a prioritized strategy for Nike. In support of Nike in the use of only one generic strategy, an experiment by Dess and Davis (1984) found that firms employing only one of Porter's generic strategies outperformed firms pursuing elements of more than one strategy