Porter strategic group essay

[Business](), [Branding]()

Michael Porter described three types of strategy to achieve/maintain competitive advantage in his 1980 work Competitive strategy: techniques for analysing industries and competitors. (CS: TAIC) These generic strategies are based on two dimensions: market scope + core competency with two competencies being the most important: product differentiation/product cost. [pic]Porter (1980) stressed that failure to adopt single strategy of differentiation or low cost results in " stuck in the middle" scenario since adopting more than one strategy loses entire focus of organisation/results in lack of clear direction as differentiation incurs costs which contradict basis of low cost strategy whilst standardised, low cost products have no differentiation hence, cost leadership or differentiation strategies are mutually exclusive.

cost leadership/differentiation strategy clash – no proper direction. cost leadership/differentiation/market segmentation (or focus). Market segmentation narrow in scope – cost leadership/differentiation broad in market scope. Porter's explanation of the profitability of firms with either high/low market share was due to cost leadership strategy (HMS) or market segmentation to focus on small/profitable market niche.

(LMS) Least profitable firms with moderate market share are said to be " stuck in the middle" because they do not have, or follow, a viable generic strategy strategy combinations hard to implement due to conflict between cost minimization and cost of value-added differentiation. Post-Porter(1980) research indicates companies pursuing differentiation/low-cost strategies may be more successful than companies pursuing only one strategy. (RyanAir/EasyJet/Dell) low cost strategy rarely able to provide a sustainable competitive advantage – firms end up in price wars. best cost strategy is preferred – best value for low price. CLS – winning market share by appealing to cost-conscious/price-sensitive customers by having lowest prices in target market segment. To succeed at offering lowest price + achieve profitability/ high ROI, firm must operate at lower cost than rivals. hree ways to achieve this: 1.

High asset turnover. ie restaurant turns tables around quickly (Wagamama), airline turns around flights very fast (Ryanair). 2. low direct/indirect operating costs via high volume of standardized, no-frills products, limited customization/personalization of service. costs low via fewer/standard components.

Overheads low via low wages, premises in low rent areas, cost-conscious culture. continuous search for cost reductions in all areas of business. 3.

ontrol over supply/procurement chain to ensure low costs via bulk buying/lean supply/vertical integration product/process innovation enables small firm to offer cheaper product/service if incumbent costs/prices too high ie budget airlines achieved market share growth by offering cheap, no-frills services – much cheaper than large airlines. CLS – disadvantage = low customer loyalty – price-sensitive customers switch if lower-price substitute is available. CLS = reputation for low quality – difficult for firm to rebrand itself/products if it chooses differentiation strategy in future. Differentiation Strategy Differentiate products to compete successfully ie Apple Computer/Mercedes-Benz. DS appropriate when target segment not price-sensitive/market competitive/customer needs under-served/firm has unique

+ hard to copy resources/capabilities ie patents/IP/unique expertise/HR talent/innovative processes/brand. (barriers to entry).

Focus or Strategic Scope Focus not separate strategy but scope within which the firm competes ie mass market (broad scope), or focused market segment(narrow scope). Basis still cost leadership or differentiation. arrow focus – (niche strategy) aimed at segments with specialized needs. low price or differentiated products/services depend on resources/capabilities of firm to better meet needs of target market. competitive advantage through product innovation and/or brand marketing rather than efficiency.

focused strategy targets market segments less vulnerable to substitutes/where competition is weak to earn above-average ROI. broad focus – firm identifies needs/wants of mass market/competes on price (low cost) or differentiation (quality, brand/customization) depending on resources/capabilities. WalMart – broad scope/mass market cost leadership strategy. Apple – mass market with iPhone/ iPod ie differentiation strategy based on design/branding/user experience to charge price premium due to perceived unavailability of close substitutes. Criticisms of generic strategies Several commentators oppose Porter's rationalist concept that firm must focus on cost leadership/differentiation. question use of generic strategies claiming they lack specificity, lack flexibility, and are limiting.

Indeed, Post-Porter(1980) research indicates companies pursuing differentiation/low-cost strategies may be more successful than companies pursuing only one strategy. (RyanAir/EasyJet/Dell) Miller (1992) questions being " caught in the middle" concept – viable middle ground between strategies. Stopford (1992) – most successful companies resolve “ the dilemma of opposites”.

Mauborgne (1999) describes “ value innovation” model – companies must look outside paradigms to find new value propositions. Blue ocean strategy – simultaneous pursuit of low cost and differentiation strategies. Hambrick (1983) – hybrid business strategy outperforms adopting one generic strategy. Hill (1988) – successful combination of strategies results in sustainable competitive advantage/ability to respond to environment conditions. (Anderson 1997). Unpredictable market requires flexibility. Porter (1991) accepts hybrid strategy could exist “ Any superior performing firm has achieved one type of advantage (cost leadership), the other (differentiation) or both (hybrid strategy)” long term establishment depends on agility/responsiveness re market/environmental conditions. If strategy does not cope with the environmental/market contingencies, long term survival becomes unrealistic.

Diverging strategy into different avenues to exploit opportunities/avoid threats created by market conditions is pragmatic approach for a firm. superior performance than competition reached with stronger foundations if “ hybrid strategy” is adopted. Depending on market/competitive conditions hybrid strategy should be adjusted. Michael Porter’s generic strategies are just one part of his complete strategic models. The other elements are the value chain and the five forces analyses.