

# Michael porters strategy

Business, Strategy



Michael Porters Strategy Michael Porter is the University Professor (the highest honor in Harvard University) in Harvard Business School. He is acknowledged as the father of competitive strategy. He has two main theoretical perspectives; one is "the five forces model of competition", and the other one is just the "three competition strategies" (Michael Porters Strategy). The three competition strategies are cost leadership strategy, differentiation strategy and segmentation strategy. These strategies are used for people to achieve, maintain and even increase their competitiveness of their business.

Porter thought that the purpose of these strategies is to make the business of the enterprises better than their competitors: some of the enterprises can gain higher revenue in some industries; however, in some other industries, the success of one of the strategies may just give the enterprise a little bit profit. Porter also said that the possibility could be very low that the basic goal of an enterprise may be more than one. Because enterprises need to try their best to achieve one strategy and they also need organizational arrangement to support the strategy.

If the enterprise has more than one goal, these resources will be dispersed. Cost leadership strategy. This strategy asks the enterprises to establish efficient production line, decrease the cost on the basis of their experience, and control the cost of management and production cost, so as to reduce the costs of R&D (research and development), service, marketing, advertising, etc. In order to reach these goals, management need to be highly concentrated. If the enterprise has low cost, it means that this enterprise can earn more value when other enterprises lose profit in competition.

Enterprises need to obtain high relative market share or other strength, such as good communication with raw material suppliers, to get the good status of the lowest total cost. This status is very attractive; because once an enterprise wins the status, they can get higher marginal profit, as well as invest to new equipment and modern equipment to keep their leading position of cost. This kind of re-invest is the precondition of keeping the condition of low cost. Differentiation strategy. Differentiation strategy is to make the products or service differently to make them special.

There are many ways to achieve this strategy: design the brand image, make technic unique, perform distinctive, provide customer service, build business network and make other aspect unique. The best way is that the enterprise has many differentiation characters. If this strategy implemented well, it can make the enterprise get high level of profit. Porter thought that building differentiation strategy means that the enterprise needs to think clearly because of the exclusiveness of it. The strategy cannot stay with increasing market share.

Enterprises need to spend high cost when establishing this strategy. Though clients know clearly about the special strength of the enterprise, they may not have the ability or they are not willing to pay for the high cost the enterprises asked them to pay. Segmentation strategy. This strategy focuses on a special client group, or a small area of the production line or a special market. Segmentation strategy focuses on better service a special target, while the other two strategies focus on the whole industry.

The precondition of this strategy is that the business of the enterprise can provide better service and higher efficiency to its special strategic target, so

as to exceed other competitors in broader area. Porter said that this strategy could both achieve differentiation and low cost. However, this strategy means that the market share is limited. Segmentation strategy cannot increase both profit rate and the amount of sales. Porter indicated that enterprises need to make sure about the three strategies and they should make a fundamental strategic decision to close up to the three strategies, but not hesitate at the crossroads.

Once the enterprise does not make the decision, they will spend much money and time. Using these strategies one by one will be failed, cause the requirement of them are totally different. Baike, 2013, " Michael Porter", Biaduoedia, viewed at March 12th 2013, Wiki, 2013, " Porter's generic etrategy", wiki article, viewed at March 12th 2013,