

# Michael porter's three competitive strategies essay sample

[Business](#), [Marketing](#)



Michael Porter is a Professor of HBS . He established that A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus Cost leadership Strategy: This strategy involves the firm winning market share by appealing to cost-conscious or price-sensitive customers. This is achieved by having the lowest prices in the target market segment, or at least the lowest price to value ratio (price compared to what customers receive). To succeed at offering the lowest price while still achieving profitability and a high return on investment, the firm must be able to operate at a lower cost than its rivals. There are three main ways to achieve this.

The first approach is achieving a high asset turnover. In service industries, this may mean for example a restaurant that turns tables around very quickly( Mac Donald ), or an airline that turns around flights very fast ( Indigo). In manufacturing, it will involve production of high volumes of output. These approaches mean fixed costs are spread over a larger number of units of the product or service, resulting in a lower unit cost, i. e. the firm hopes to take advantage of economies of scale and experience curve effects. For industrial firms, mass production becomes both a strategy and an end in itself. Higher levels of output both require and result in high market share,

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and create an entry barrier to potential competitors, who may be unable to achieve the scale necessary to match the firms low costs and prices.

The second dimension is achieving low direct and indirect operating costs. This is achieved by offering high volumes of standardized products, offering basic no-frills products and limiting customization and personalization of service. Production costs are kept low by using fewer components, using standard components, and limiting the number of models produced to ensure larger production runs. Overheads are kept low by paying low wages, locating premises in low rent areas, establishing a cost-conscious culture, etc. Maintaining this strategy requires a continuous search for cost reductions in all aspects of the business. This will include outsourcing, controlling production costs, increasing asset capacity utilization, and minimizing other costs including distribution, R&D and advertising. The associated distribution strategy is to obtain the most extensive distribution possible. Promotional strategy often involves trying to make a virtue out of low cost product features.

The third dimension is control over the supply/procurement chain to ensure low costs. This could be achieved by bulk buying to enjoy quantity discounts, squeezing suppliers on price, instituting competitive bidding for contracts, working with vendors to keep inventories low using methods such as Just-in-Time purchasing or Vendor-Managed Inventory. Dell Computer initially achieved market share by keeping inventories low and only building computers to order. Other procurement advantages could come from preferential access to raw materials, or backward integration.

Cost leadership strategies are not only viable for large firms with the opportunity to enjoy economies of scale and large production volumes but also small businesses can also be cost leaders if they enjoy any advantages conducive to low costs. For example, a local restaurant in a low rent location can attract price-sensitive customers if it offers a limited menu, rapid table turnover and employs staff on minimum wage. Differentiation strategy: Differentiate the products in some way in order to compete successfully. Examples of the successful use of a differentiation strategy are Hero Honda, Asian Paints, HLL, BMW Group Automobiles, Apple i Phone.

A differentiation strategy is appropriate where the target customer segment is not price-sensitive, the market is competitive or saturated, customers have very specific needs which are possibly under-served, and the firm has unique resources and capabilities which enable it to satisfy these needs in ways that are difficult to copy. These could include patents or other Intellectual Property (IP), unique technical expertise (e. g. Apple's design skills ), talented personnel (e. g. a sports team's star players or a brokerage firm's star traders), or innovative processes. Successful brand management also results in perceived uniqueness even when the physical product is the same as competitors. This way Starbucks could brand coffee, and Nike could brand sneakers. Fashion brands rely heavily on this form of image differentiation.

#### Variants on the Differentiation Strategy

The shareholder value model holds that the timing of the use of specialized knowledge can create a differentiation advantage as long as the knowledge

remains unique. This model suggests that customers buy products or services from an organization to have access to its unique knowledge. The advantage is static, rather than dynamic, because the purchase is a one-time event.

The unlimited resources model utilizes a large base of resources that allows an organization to outlast competitors by practicing a differentiation strategy. An organization with greater resources can manage risk and sustain profits more easily than one with fewer resources. This provides a short-term advantage only. If a firm lacks the capacity for continual innovation, it will not sustain its competitive position over time.

Focus or Strategic scope: This strategy describes the scope over which the company should compete based on cost leadership or differentiation. The firm can choose to compete in the mass market (like Reliance Fresh, Big Bazaar) with a broad scope, or in a defined, focused market segment with a narrow scope (Indigo Airlines). In either case, the basis of competition will still be either cost leadership or differentiation.

In adopting a narrow focus, the company ideally focuses on a few target markets (also called a segmentation strategy or niche strategy). These should be distinct groups with specialized needs. The choice of offering low prices or differentiated products/services should depend on the needs of the selected segment and the resources and capabilities of the firm. It is hoped that by focusing your marketing efforts on one or two narrow market segments and tailoring your marketing mix to these specialized markets, you

can better meet the needs of that target market. The firm typically looks to gain a competitive advantage through product innovation and/or brand marketing rather than efficiency. It is most suitable for relatively small firms but can be used by any company. A focused strategy should target market segments that are less vulnerable to substitutes or where a competition is weakest to earn above-average return on investment.

Examples of firm using a focus strategy include Spice Jet and Indigo Airlines, which provides short-haul point-to-point flights in contrast to the full service carriers like Jet Airways .

In adopting a broad focus scope, the principle is the same: the firm must ascertain the needs and wants of the mass market, and compete either on price (low cost) or differentiation (quality, brand and customization) depending on its resources and capabilities. Big Bazaar has a broad scope and adopts a cost leadership strategy in the mass market. Inox also targets the mass market with its movies, but adopts a differentiation strategy, using its unique capabilities in story-telling and animation to produce signature animated movies that are hard to copy, and for which customers are willing to pay to see and own. Micromax also targets the mass market with its products, but combines this broad scope with a differentiation strategy based on design, branding and user experience that enables it to reach the Indian common man.

Michael Porter's three Competitive Strategy Diagram

## Indian Example

Some of the Indian companies has successfully implemented Michael Porter three competitive strategies . Some example are as follows

Big Bazaar was introduced by the Future Group in September 2001 with the opening of its first four stores in Kolkata, Indore, Bengaluru and Hyderabad within a period of 22 days.

Started by Kishore Biyani, Big Bazaar was launched mainly as a fashion format selling apparel, cosmetics, accessories and general merchandise. Over the years, the retail chain has included in its portfolio a wide range of products and services, ranging from grocery to electronics.

The current retail formats of the Future Group include Big Bazaar, Food Bazaar, Electronic Bazaar and Furniture Bazaar. Big Bazaar is popularly known as the ' Indian Walmart' today. .

### Scope and Focus by Big Bazaar

Big Bazaar (Scope) is the largest hypermarket chain in India. As of 2013 there are 216 stores across 90 cities and towns in India covering around 16 million sq. ft. of retail space.

Product - Big Bazaar is designed as an agglomeration of bazaars or Indian markets with clusters offering a wide range of merchandise including fashion and apparels, food products, general merchandise, furniture, electronics, books, fast food and leisure and entertainment sections.

Big Bazaar stores are aimed at providing a local marketplace feel to the shoppers. They offer a wide variety of household items including retail apparels, food products, general merchandise, furniture, electronics, books, fast food, etc. Several stores also have leisure and entertainment sections. The hypermarket chain crossed the 100 store mark in 2008.

Big Bazaar caters to different segments. They address the mass Big Bazaar has divided India into three segments:

1. India one: Consuming class which includes upper middle and lower middle class (14% of India's population).
2. India two: Serving class which includes people like drivers, household helps, office peons, liftmen, washermen, etc. (55% of India's population)
- and 3. India three: Struggling class (remaining 31% of India's population).

While Big Bazaar is targeted at the population across India one and India two segments, Aadhaar Wholesale is aimed at reaching the population in India three segment. With this, Future Group emerged as a retail destination for consumers across all classes in the Indian society.

#### Cost Differentiation strategy

They have introduced various new concepts and promotional schemes to lure the customers and sell mass products at much lower cost than other retailers. Wednesday Bazaar- The concept of Wednesday Bazaar was promoted as ' Hafte Ka Sabse Sasta Din' (Cheapest Day of the Week).

Initiated in January 2007, the idea behind this scheme was to draw customers to stores on Wednesdays, the day when consumer presence is



usually less. According to the chain, the aim of the concept was 'to give home makers the power to save the most'.

Sabse Sasta Din-Big Bazaar introduced 'Sabse Sasta Din' (Cheapest Day) with the intention of attaining a sales figure of Rs 26 crore in a single day. The concept became such a hit that the time period for the offer had to be increased from one day to three days in 2009 (January 24 to 26) and to five days in 2011 (January 22 to 26).

Maha Bachat-The concept of 'Maha Bachat' (Mega Saving) was introduced in the year 2006 as a single day campaign with attractive promotional offers across the company outlets. Over the years, the concept has grown to become a six-day biannual campaign. During this campaign, attractive offers are given in all the value formats including Big Bazaar, Food Bazaar, Electronic Bazaar and Furniture Bazaar.

The Great Exchange Offer -Introduced on February 12, 2009, 'The Great Exchange Offer' allows customers to exchange their old goods for Big Bazaar coupons. The coupons can be redeemed later for buying brand new goods from Big Bazaar outlets across the nation. Big Bazaar has implemented all strategies and concepts of Michael Porter to emerge as a successful retail chain in India

The next example is Micromax Mobiles

Micromax Mobiles is one of the leading mobile companies in the World today. According to Strategy Analytics' Global Handset vendor market share report, it is the 12th largest mobile brand in the World with a global market share of

1% and close to 8% market share in India. With an indepth understanding of rapidly changing consumer preferences coupled with the use of advanced technologies, Micromax has been able to differentiate itself from the competitors through innovation and design. The brand took on the leaders in the category with specific products that addressed different customer needs. The company has focused their efforts towards creating life-enhancing mobile phone solutions and wireless technologies that cater to the increasingly evolving needs of mobile users in India. Micromax aims to be a billion dollar company with a significant double digit market share by 2014. Driving the next phase of growth, the company is expanding aggressively in India and globally.

Today, Micromax has presence across India and global presence in Bangladesh, Nepal, Sri-Lanka, Maldives, UAE, Kingdom of Saudi Arabia, Kuwait, Qatar, Oman, Afghanistan and Brazil. Micromax sells around 1.3 million mobiles handsets every month, with a presence in more than 500 districts through 100,000 retail outlets in India Product Innovations:

Micromax product portfolio embraces more than 60 models today, ranging from feature rich, dual-SIM phones to QWERTY, touch-enabled smart-feature phones and 3G Android smartphones designed for younger consumers in suburban and urban markets. Product differentiation by Micromax

Micromax reaches Indian mass by launching new and innovative products since inception are: \* First Long Battery Life Phone with 30 days battery back up( X1i Marathon Battery phone with 30 days standby time & 17 days Talk time ) \* First Dual SIM Dual mode active Phone (GSM+CDMA) (Micromax

GC700 is the first GSM + CDMA Mobile phone) \* First Gaming Device ( G4 Gamolution phone with motion sensor gaming like Wi-fi ) \* First Women's Line of Devices (Q55 Bling phone- First women's phone with a swivel form and Swarovski navigation keys) \* First Universal Remote Control Phone ( X235 With Universal Remote Control for TV, DVD, AC in your phone) \* First phone with built-in blue tooth ( Micromax X450 Van Gogh A stylish phone that integrates a detachable Bluetooth headset in its sleek design) \* First Superfone with Gesture Control (Created a new category called ' Superfone' with Gesture Control, powered with 1GHz dual core NVIDIA Tegra 2 Processor) Marketing: Driven by growing aspirations of the Indian mobile users, Micromax has geared up to bring about a paradigm shift in the way cell phones are used by introducing groundbreaking mobile solutions technology.

When Micromax entered the segment, it followed a simple strategy of bringing innovative products for the consumers and coupled it with smart marketing. The company's success could be attributed to the ' Out of the Box' thinking and thus providing Innovative & insightful products to the masses. At Micromax, the target audience is youth who want innovative, stylish phones that are affordable. Today the mobile phone category is driven by youth, with about 60% of the users under the age group of 20-40 yrs and Micromax utilizes every opportunity to connect with the youth. Micromax understands that building connect is all about being involved with the customers and also giving them the value for money. Through their products and innovative campaigns, they aim to provide value additions to

the Micromax users and have him or her involved by creating unique brand proposition. Distribution Network: Micromax has a 3 tier distribution network in India, which extends across 65 super distributors, 1500 micro distributors and over 100, 000 retailers. To enhance brand cognizance and retail strength, Micromax has a chain of exclusive retail outlets, owned by third party. Few words from MICROMAX Management

SEGMENTATION: We understand the pulse of the consumer and hence constantly invest into strengthening the product portfolio through R&D and innovative marketing strategies SEGMENTATION: Our product portfolio embraces more than 60 models today, ranging from feature rich, dual-SIM phones to QWERTY, touch-enabled smart-feature phones and 3G Android Smartphone's. We also lay special focus on the products to enhance the customer's overall experience with the device. Most of our products come with innovative packaging and bundled accessories. Globally, Micromax caters to a varied target audience having their focus majorly on the youth COST: Our Strategy focuses on innovating, designing and using the latest technologies to develop products at affordable prices. DIFFERENTIATION: Our product portfolio is tailor-made to suit the needs and aspirations of our growing consumer base in the international markets

Some other classic examples in Indian Industry is Indigo Airlines which focus to cater the low cost customer segment ( includes students, households and sometimes corporate ) , differentiation themselves with unmatched arrival time and low airfare Hero Motocorp Ltd. formerly Hero Honda, is an Indian motorcycle and scooter manufacturer based in New Delhi, India. The reach

the Indian with low price and fuel efficiency considering the high fuel price in India