Cost leadership approach and differentiation strategy

Business, Management

A firm can possess two categories of competitive advantage, that is, low costs and differentiation. The two fundamental basic types combine with the latitude of activities by which the company seeks to achieve. There are three generic stratagems for achieving the above-average performance within the industry; the cost leadership, focus, and differentiation. Focus put on the cost leadership approach and differentiation strategy; this paper looks at the differences and the simultaneous working together of the two (Porter & Tanner 2012, pp. 12).

Difference between Cost Leadership Approach and Differentiation Strategy

Cost leadership strategy is the method by which a firm sets out to become a low-cost producer in the industry. The cost advantages accrue from different sources depending on the structure of the industry. It may comprise the pursuit of economies of scale, preferential mobility to raw materials, and the propriety technology. Low-cost producers tend to find and exploit all the sources of cost advantage. A firm that achieves and can sustain the overall cost leadership is above the average performer in the industry. Such a company can command the prices near or at the industry standard (Porter & Tanner 2012, pp. 26).

On the other hand, the differentiation strategy is the method by which a firm seeks uniqueness in the industry. The distinctiveness is along some of the dimensions widely valued by the buyers. The procedure selects one or a number of attributes that the majority of the customers in the industry perceive as significant. Companies in this category exceptionally position themselves to meet the identified needs of their clients. The exclusivity of this strategy is where the company rewarded with a premium price for its uniqueness (Porter & Tanner 2012, pp. 76)

Cost Leadership Approach and Differentiation Strategy Simultaneously

It is possible for the company to follow a cost leadership while it follows a differentiation strategy at the same time. Though it does not work for every company. A good example of an organization that can embrace the two approaches together is the Toyota corporation. Toyota produces quality cars at low prices accompanied by differentiating strategies. For example, the introduction of luxury brands of BMW cars and the Mercedes-Benz new series (Porter & Tanner 2012, pp. 138).

Some scholars such as Porter argue that cost leadership and differentiation approaches are irreconcilable. A business unit unable to achieve one of the competitive strategies most often is stuck in the middle of the competitive marketplace lacking any competitive advantage. Therefore, according to Porter, the unit is doomed below the average performance (Porter & Tanner 2012, pp. 150).

A trade-off is not necessarily a must. Companies such as Toyota, IBM, Southwest Airlines, IKEA, McDonald’s, and Wal-Mat are firms that succeeded to reconcile both strategies and enjoy a dual competitive advantage. Businesses that have lower costs and a high-quality differentiation strategy offers low prices accompanied by high quality. It, therefore, complicates things and follows the cost leadership strategy (Porter & Tanner 2012, pp. 179).

The success of the consumer goods industries such as motorcycle, cars, musical instruments, and consumer electronics in Japan gives room to reconcile the low cost with high quality and technological progressiveness.