Study of generic strategies

While the five forces model is used to evaluate the external analysis, Porter's Generic Strategies are used to discuss how the banks should position themselves in the banking industry to sustain or improve their competitive advantages.

Porter's frameworks are selected because he is one of the most influential strategists. His frameworks received more research attention than other frameworks and are also widely used by many popular scholars (Kim & Lim, 1988) in the traditional brick-and-mortal business environment.

The e-business environment is very different from the traditional brick-and-mortal business environment. Many frameworks that work in the traditional business environment may not be applied to the internet age. The generic strategies were tested and proved to be applicable to e-business although some modifications were recommended to make them more suitable to the internet age (Stimpert 2004). One advantage of the generic strategies is that these strategies are not company or industry dependent.

If the attractiveness of an industry is a main factor that determines a company's profitability in which it operates, the second important factor is likely the company's positioning within that industry. Porter's generic strategies are commonly used for businesses to position their companies in the marketplace to maintain their competitive advantage.

The generic strategies have three schemes. They are about the selection of cost minimisation strategies, product differentiation strategies, or focus strategies on the niche market. The selected scheme will serve as a direction for the management team to follow such as recruitment policy, remuneration, training, management style etc.

Cost Leadership

Companies target the broad market through lower costs. The cost leadership strategy can attract customers who are price sensitive.

Differentiation

Companies differentiate themselves from other companies by selling specialised products and/or services to a broad target market. The differentiation strategy can be built on things like product design and features, brand power, superior service etc, assumed that they are difficult for competitors to imitate. Research findings suggest that brand is a more important consideration compare with price when the products or services are related to banking or security investments. (Stimpert 2004)

Focus

Companies target a specific niche market by pursuing lowest cost or delivering differentiated products or services.

Competitive Advantage

Low Cost

Product/Service Uniqueness

Market Scope

Broad Target

Cost Leadership Strategy

Differentiation Strategy

Narrow Target

Cost Focus Strategy

Differentiation Focus Strategy

Generic Strategy Options

Source: Porter (1985)

In order to keep the cost down, products or services need to be standardised with minimal distinctive features. On the contrary, differentiation depends on offering specialised features so as to achieve premium price. Clearly the cost leadership strategy contradicts the differentiation strategy. Therefore, Porter believes that companies must choose only one scheme they want to position themselves in the industry or they will end up ‘ stuck in the middle’. However, Kim (2004) argued that creating a strategy that can combine some of the best elements from both cost leadership strategy and differentiation strategy can perform better than just focus on either one of these two strategies alone. Kim also asserted that the integrated strategy was particular suitable for e-business firms. Stimpert, J. L. (2004) also supports the approach of integrated strategies and he describes it as “ Hybrid Strategies”.

Linking the Generic Strategies to Five Forces

The five forces and the generic strategies can be tightly related to each other as illustrated in the figure below. When the five forces change, a company must review its position to maintain its competitive advantage.

Industry

Force

Generic Strategies

Cost Leadership

Differentiation

Focus

Entry

Barriers

Can reduce price to discourage potential entrants.

Unique products or services to deter potential entrants.

The differentiated products or services derived from core competencies focused on a niche market is a powerful entry barrier.

Buyer

Power

Can offer lower price to selected buyers.

Buyers do not have much power to negotiate as there are not many alternatives on the market.

Buyers do not have much power to negotiate as there are not many alternatives on the market.

Supplier Power

Can reduce the power of suppliers.

Price increase from suppliers can be passed on to customers as buyers do not have many options.

Price increase from suppliers can be easily passed on to customers as buyers do not have many options.

Threat of Substitutes

Can reduce price to fend off substitutes.

The unique characteristics of the products or services make it difficult for imitate and hence there is less concern for the threat of substitutes.

The unique characteristics of the products or services make it difficult to find substitutes.

Rivalry

Use price an effective weapon to eliminate week competitors.

The unique characteristics of the products or services make it difficult for customers to switch to other rivals.

The unique characteristics of the products or services make it difficult to imitate from rivals.

The Industry Forces and The Generic Strategies

Poised Strategic Management Approach

As technology such as internet continue to cause disruptive innovation changes, some scholars like Davenport (2006) believe that traditional approaches to strategy and strategic management is insufficient to cater for those rapid changes in the innovation economy. Consequently a more dynamic, innovative and holistic approach is required. Davenport proposed a new strategic management approach (SL: page 168) and described it as " Poised Strategy to manage multiple business models for sustaining and disruptive value innovation in collaborative business networks". His approach takes another step further than the integrated strategies or the hybrid strategies.

As the traditional strategies only focus on either planning, balancing, positioning, or resource leveraging are inadequate because such approach is lack of dynamic, the application of multi-option strategy is required. Therefore, it implies the need to the creation of a " poised organisation". Davenport believed that a company should be able to continually create innovative value from multiple business models using the poised strategy.

As a company's resources are limited, networking with other companies enhances the ability of enterprises to continue to maintain their competitive advantage and survive. (SL: p. 179) Davenport (2006) suggested that the poised strategy approach encourages a company not to limit itself in a single industry but to extend its activities cross multiple industries like a business ecosystem. This is where the collaborative business network comes in.

A collaborative business network is essentially a business ecosystem. The concept of business ecosystem was originated from James Moore in 1993. His definition of business ecosystem is:

“ An economic community supported by a foundation of interacting organizations and individuals – the organisms of the business world. This economic community produces goods and services of value to customer, who themselves are members of the ecosystem. The member organisms also include suppliers, lead producers, competitors and other stakeholders. Over time, they coevolve their capabilities and roles, and tend to align themselves with the directions set by one or more central companies. Those companies holding leadership roles may change over time, but the function of ecosystem leader is valued by the community because it enables members to move toward shared visions to align their investments and to find mutually supportive roles.”

(SL: Source from http://www. worldlingo. com/ma/enwiki/en/Business_ecosystem, but prefer getting it from Moore’s book)

The business ecosystem can create better products or services because the collective effort from members in the network can explore more ideas and be more creative than any single company can do. The business ecosystem concept has a resemblance to Porter’s Value Chain model in the networking companies such as suppliers and buyers concept. However, the flow from the suppliers to the consumers in the Value Chain model is linear and is suitable for static or stable environment. The business ecosystem is a newer concept designed for fast changing environment. Members in the network may involve multiple industries working together to deliver value to the customers. All stakeholders including consumers work collaborative to co-evolve so the inputs can come from any members in the network simultaneously. In fact, consumers have a very important role in the business ecosystem because only consumers know what they want (eg. Fragidis et al. 2010, Davenport 2006). Therefore customer participation is imperative in creating the products or services (Fragidis 2010) and hence a good business strategy should be consumer-oriented.

(Source: http://www. marketingteacher. com/lesson-store/lesson-value-chain. html)

(SL: Prefer to refer to Porter's original matter)

The figure above illustrates Moore's Business Ecosystem

(http://www. provenmodels. com/574/business-ecosystem/james-f.-moore/)

(SL: Prefer to refer to Moore's book directly)

As for the financial service such as the banking industry, to be able to serve increased and specialised customer needs is particular important. The role of technology cannot be ignored. Internet is known to be able to improve efficiency and reduce costs. The implementation of Web 2. 0 can be used to support customer participation and co-creation. The later release of Web 3. 0 and Semantic Web also added the capacity to empower consumers to participate in value-adding activities as well as composing personal solutions through the facilitation of intelligent agents (Fragidis et al. 2010). Therefore internet is an excellent enabler to support customer-oriented strategy efficiently and at a very low cost. In other words, there is no reason that an enterprise cannot implement multiple strategies such as low cost strategy and differentiation strategy simultaneously through a customer-centric business ecosystem.