Strategic Management

Undergraduate course in Management

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2014/2015

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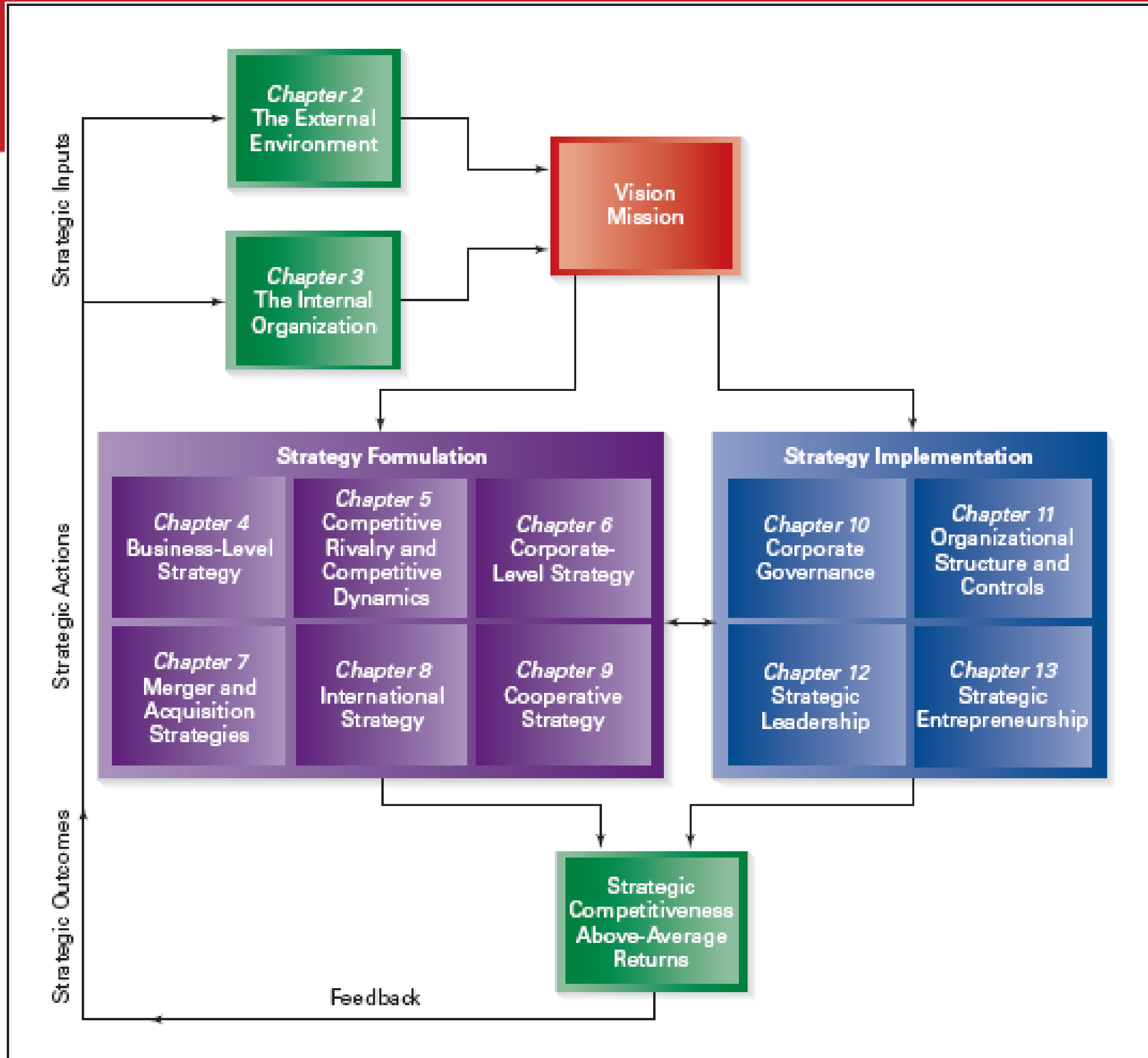
The Strategic Management Process



Five content areas

Defining business-level strategy

Relationship between customers and strategy

Differences in business-level strategies

5-Forces

Risks of business-level strategies

Introduction

Strategy: increasingly important to a firm's success and concerned with making choices among two or more alternatives. Choices dictated by: a) external environment; and b) internal resources, capabilities and core competencies.

Business level-strategy: integrated and coordinated set of commitments and actions the firm uses to gain a competitive advantage by exploiting core competencies in specific product markets. There are 5 basic generic business level strategies.

Satisfying customers is the foundation of successful business strategies, It has five components (see discussion in the next slides).

Customers: Their Relationship with Business-Level Strategies

- Strategic competitiveness results when a firm can satisfy customers by using its competitive advantages
- Returns earned are the lifeblood of firm
- Most successful companies satisfy current customers and/or meet needs of new customers

Customers: Their Relationship with Business-Level Strategies

1) Effectively managing relationships w/ customers

- Deliver superior value
- Strong interactive relationships is foundation

2) Reach, richness and affiliation

- Access and connection to customers
- Depth and detail of two-way flow of information between firm and customer
- Facilitating useful interactions with customers

3) Who: Determining the customers to serve.

This is called market segmentation, and consists of:

- Dividing customers into groups based on differences in needs
- Process used to cluster people with similar needs into individual and identifiable groups (e.g. consumer and industrial markets)

4) What: Determining which customer needs to satisfy

- What = Needs (they are related to a product's benefits and features; must anticipate and be prepared, i.e., high-quality? Low price?)
- Translate into features and performance capabilities of products

5) How: Determining core competencies necessary to satisfy customer needs

- Core competencies: resources and capabilities that serve as source of competitive advantage for firm over its rivals
- How = core competencies

Five content areas

- Defining business-level strategy
- Relationship between customers and strategy
- **Differences in business-level strategies**
- **5-Forces**
- **Risks of business-level strategies**

Purpose of Business-Level Strategies

Purpose: To create differences between position of a firm and its competitors

Firm must make a deliberate choice to

- Perform activities differently
- Perform different activities

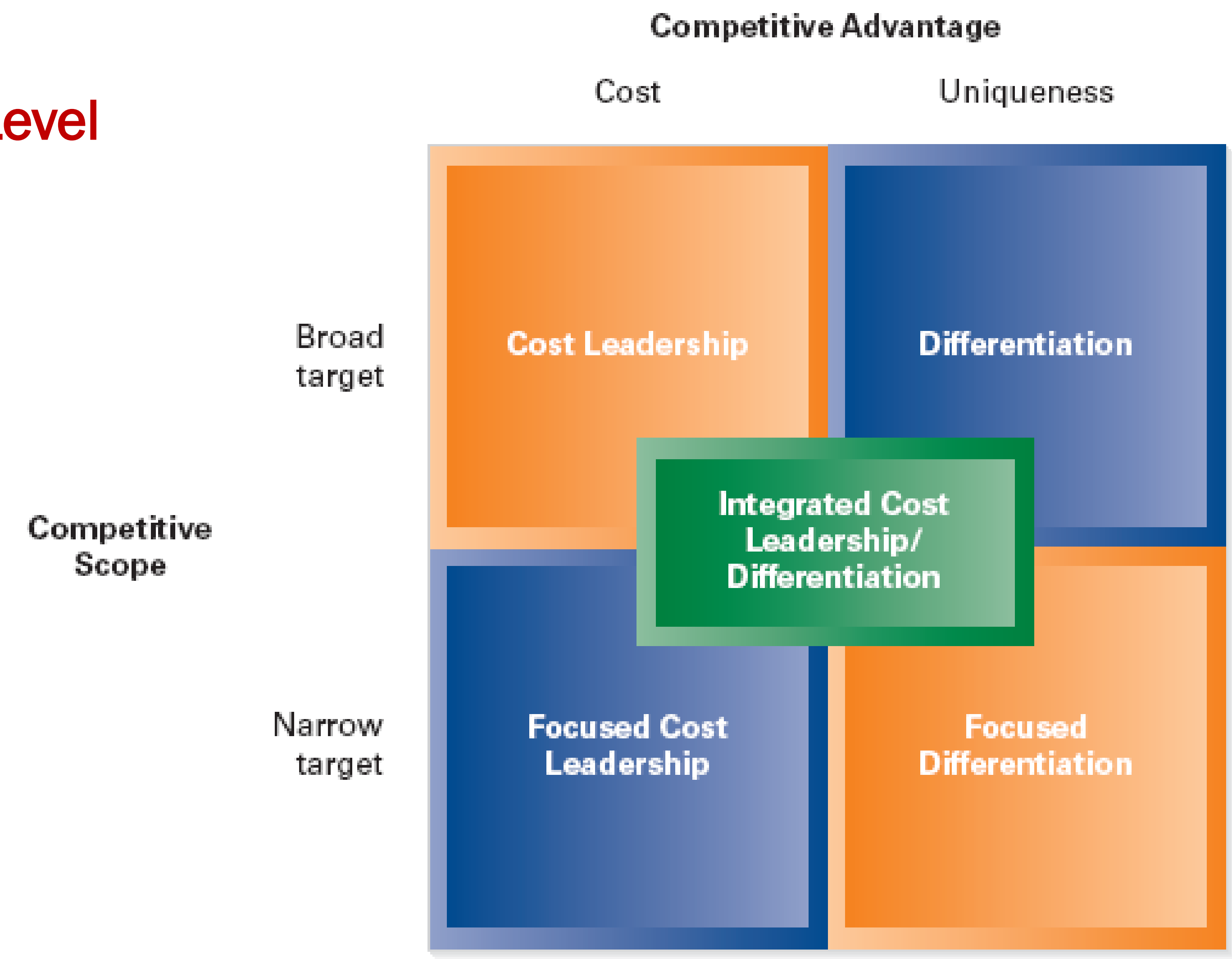
Two types of competitive advantage firms must choose between

- Cost (Are we LOWER than others?)
- Uniqueness (Are we DIFFERENT? How?)

Two types of 'competitive scope' firms must choose between

- Broad target
- Narrow target

Five Business-Level Strategies



Types of Business-Level Strategies: COST-LEADERSHIP (CL)

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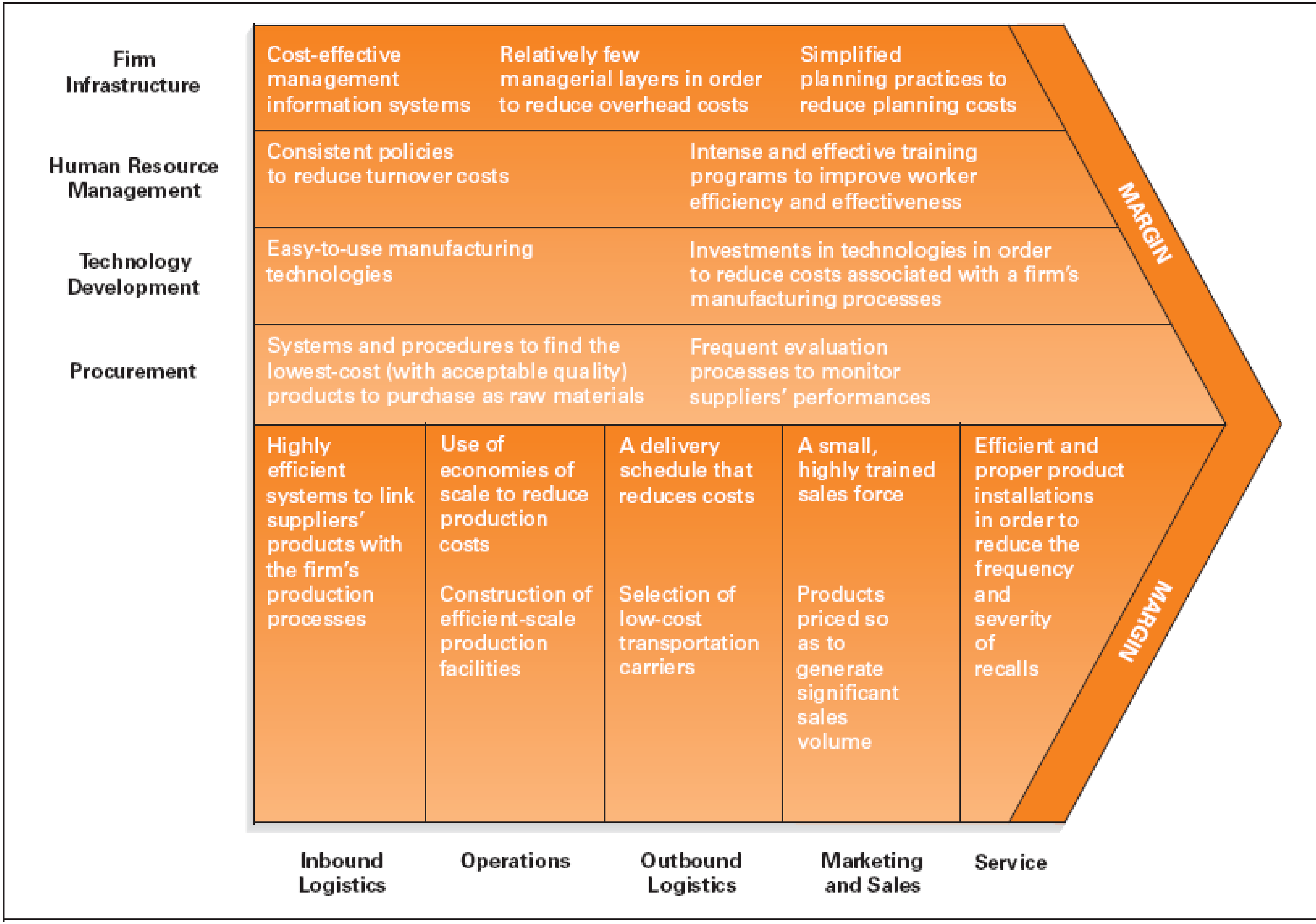
- Competitive advantage: The low-cost leader operates with margins greater than competitors
- Competitive scope: Broad
- Integrated set of actions designed to produce or deliver goods or services with features that are acceptable to customers at the lowest cost, relative to competitors
- No-frill, standardized goods
- Continuously reduce costs of value chain activities (inbound/outbound logistics account for significant cost)
- Low-cost position is a valuable defense against rivals
- Cost leaders are in a position to: a) absorb supplier price increases and relationship demands; and b) force suppliers to hold down their prices
- Continuously improving levels of efficiency and cost reduction can be difficult to replicate and serve as significant entry barriers to potential competitors
- Cost leaders hold an attractive position in terms of product substitutes, with the flexibility to lower prices to retain customers



Examples of value-creating activities associated with the CL Strategy

Types of Business-Level Strategies:
COST-LEADERSHIP (CL)

In relationship to the 5 Forces:

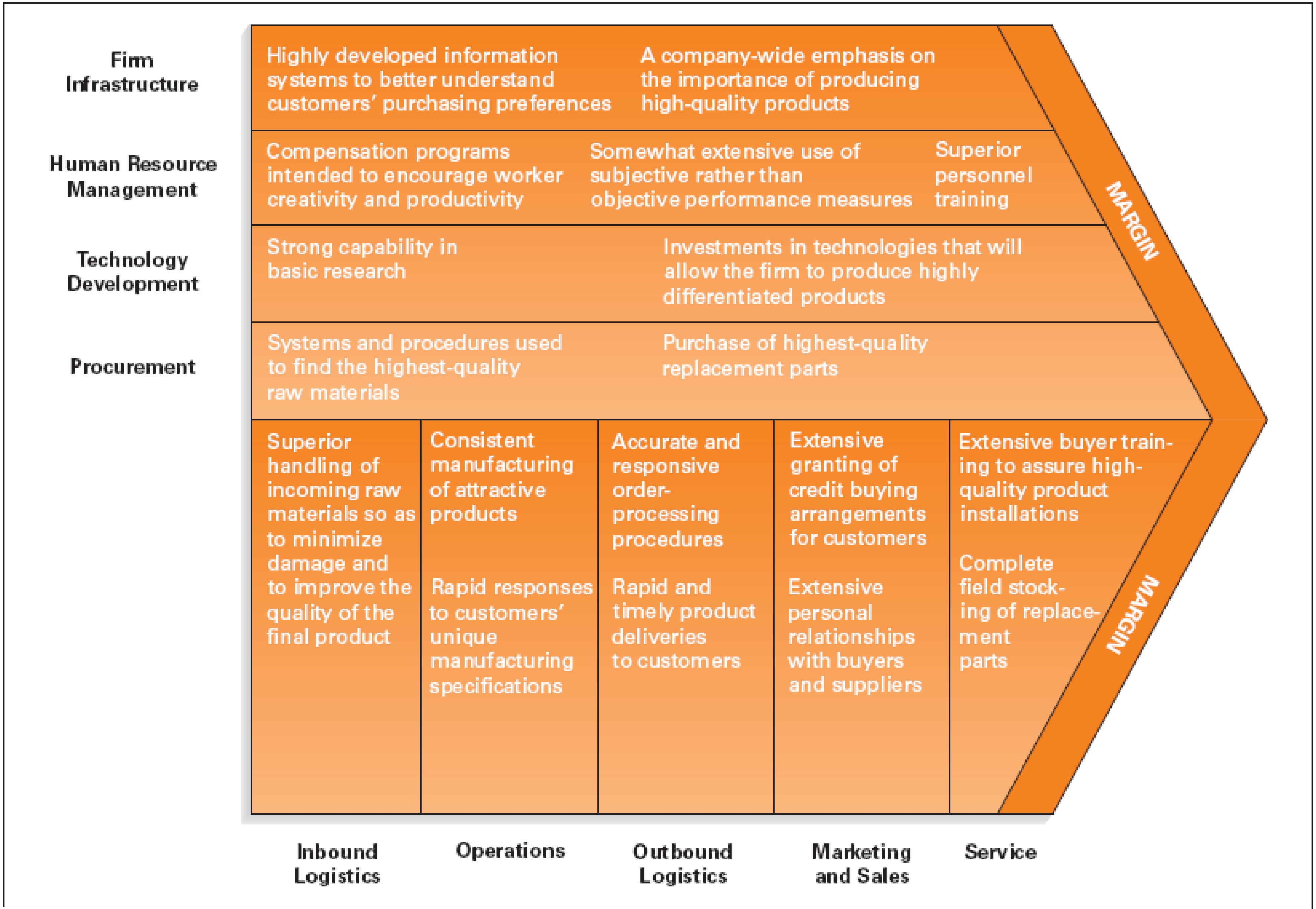
- Rivalry against existing competitors: rivals hesitate to compete on the basis of price
- Bargaining Power of Buyers (Customers)
- Bargaining Power of Suppliers
- Potential Entrants
- Product Substitutes

Competitive risks of the cost leadership strategy

- Source of cost advantage becomes obsolete
- Focus on cost may cause the firm to overlook important customer preferences
- Imitation

Types of Business-Level Strategies: DIFFERENTIATION

- Competitive advantage: differentiation
- Competitive scope: Broad
- Integrated set of actions designed by a firm to produce or deliver goods or services at an acceptable cost that customers perceive as being different in ways that are important to them
- Target customers perceive product value
- Customized products – differentiating on as many features as possible



Examples of value-creating activities associated with the Differentiation Strategy

Types of Business-Level Strategies: DIFFERENTIATION

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In relationship to the 5 Forces:

- Rivalry against existing competitors: customers are loyal purchasers of differentiated products (i.e., Bose)
- Bargaining Power of Buyers (Customers): inverse relationship between loyalty/product: As loyalty increases, price sensitivity decreases
- Bargaining Power of Suppliers: provide high quality components, driving up firm's costs. Cost may be passed on to customer
- Potential Entrants: substantial barriers (see above) and would require significant resource investment
- Product Substitutes: customer loyalty effectively positions firm against product substitutes

Competitive risks of the differentiation strategy

- Customers determine that the cost of differentiation is too great
- The means of differentiation may cease to provide value for which customers are willing to pay
- Experience can narrow customers' perceptions of the value of a product's differentiated features
- Counterfeiting

Types of Business-Level Strategies:
FOCUS STRATEGIES

Two "Focus" strategies:

In general, the firms' core competencies used to serve the need of a particular industry segment or niche to the exclusion of others.

- May lack resources to compete in the broader market
- May be able to more effectively serve a narrow market segment than larger industry-wide competitors
- Firms may direct resources to certain value chain activities to build competitive advantage

Large firms may overlook small niches

EXAMPLES:

- Buyer groups (e.g. youths/senior citizens)
- Product line segments (e.g. professional painter groups)
- Geographic markets (e.g. West vs. East coast)

Types of Business-Level Strategies:
FOCUS STRATEGIES

3. Focused Cost Leadership
   - Competitive advantage: Low-cost
   - Competitive scope: Narrow industry segment

4. Focused Differentiation
   - Competitive advantage: Differentiation
   - Competitive scope: Narrow industry segment

Types of Business-Level Strategies:
FOCUS STRATEGIES

Risk of using "Focus" strategies

- A competitor may be able to focus on a more narrowly defined competitive segment and "outfocus" the focuser
- A company competing on an industry-wide basis may decide that the market segment served by the focus strategy firm is attractive and worthy of competitive pursuit
- Customer needs within a narrow competitive segment may become more similar to those of industry-wide customers as a whole

Types of Business-Level Strategies: INTEGRATED CL / DIFFERENTIATION

5. Integrated CL/Differentiation

- Efficiently produce products with differentiated attributes
    - Efficiency: Sources of low cost
    - Differentiation: Source of unique value
- Can adapt to new technology and rapid changes in external environment
- Simultaneously concentrate on TWO sources of competitive advantage: cost and differentiation – consequently…
- …must be competent in many of the primary and support activities
- Three sources of flexibility useful for this strategy

Types of Business-Level Strategies: INTEGRATED CL / DIFFERENTIATION

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Three flexible sources include

a) Flexible manufacturing systems (FMS)

i) Computer controlled process used to produce a variety of products in moderate, flexible quantities with a minimum of manual intervention

ii) Goal: eliminate ‘low cost vs. product variety, tradeoff inherent in traditional manufacturing technologies

b) Information networks

Using technology to link suppliers, distributors and customers

c) Total Quality Management (TQM) systems

Emphasizes firm’s total commitment to the customer and continuous improvement of every process through data-driven, problem-solving approaches based on empowering employees

Types of Business-Level Strategies: INTEGRATED CL / DIFFERENTIATION

Competitive Risks of Integrated Strategies

Although becoming more popular the RISK is getting ‘stuck in the middle’:

- Cost structure is not low enough for attractive pricing of products and products not sufficiently differentiated to create value for target customer – therefore, fail to successfully implement either low cost or differentiation strategy
- Result: Don’t earn above-average returns