Chapter 3

STRATEGIC ANALYSIS : INTERNAL ENVIRONMENT

Introduction- Strategic Analysis is equally important when it comes to internal environment assessment. Internal environment refers to the sum total of people – individuals and groups, stakeholders, processes- input-throughput-output, physical infrastructure-space, equipment and physical conditions of work, administrative apparatus- lines of authority & power, responsibility, accountability and organizational culture- intangible aspects of working-relationships, philosophy, values, ethics- that shape an organization's identity. Thus, it is even more important to understand the internal environment from a strategic analysis perspective.

Understanding key stakeholders

A firm may be viewed as a coalition of stakeholders- all those individuals and entities that have a stake in its success and can impact it as well. They may be the employees, shareholders, investors, suppliers, customers, regulators and so on. This view of the firm is in contrast to the earlier view of the firm that was considered to be an extension of the owners and shareholders alone.

Thus, it may be reiterated that the stakeholders can be defined as any person/group of individuals, internal or external, that has an interest in, or impact on the business or corporate strategy of the organisation. They have the power to influence the strategy or performance of that organisation.

Since the expectations of key stakeholders can influence the organisation's strategy, a clash of objectives may have unfavourable consequences for the organisation.

Example of Key Stakeholders and their requirements for an OTT Platform

Stakeholders	Requirements
Shareholders	♦ Innovation and continuous creativecontent

	♦ Total shareholder return (RoI)
CEO and Board of Directors	♦ Prestige ♦ Market share
Major Vendors (Production Houses)	♦ Growth ♦ Stability of ordering
Consumers (Viewers)	♦ New content - Innovation ♦ Better deals - Pricing Benefits
Employees	♦ Wages and benefits ♦ Stability of employment

Mendelow's matrix

The Mendelow Stakeholder matrix (also known as the Stakeholder Analysis matrix and the Power-Interest matrix) is a simple framework to help manage key stakeholders.

Managing a project is extremely complicated as it involves managing the competing interests of various stakeholders. Who needs to know what and when, who needs to give their feedback and who has the final approval can be confusing. However, managing stakeholders is critical to the success of a project. This is where a stakeholder analysis matrix i.e. Mendelow's Matrix can help.

In reality, some stakeholders will hold more Power than others, and some stakeholders will have more Interest than others.

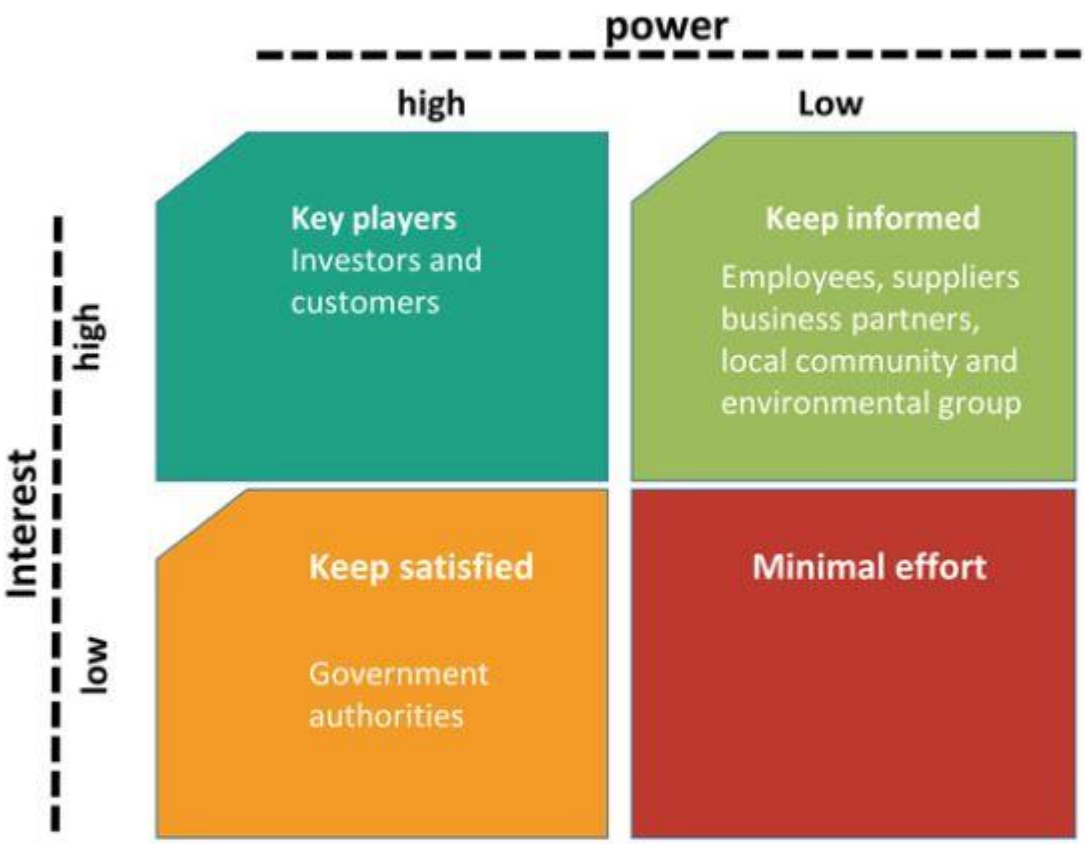
For example, a big shareholder is likely to have high power and high interest in the organisation, whereas a big competitor would have high power to impact strategy, but potentially less Interest in success of rival organisation.

Developing a Grid of Stakeholders

Mendelow's Matrix is based on Power and Interest. It suggests to identify which stakeholders are incredibly important. Metrics to define the importance being High Power and High Interest which management would need to manage closely, while investing a lot of time and resources.

For example, the CEO is likely to have more Power to influence the work and also high interest in it being successful. Keeping them informed almost daily should be a priority

However, those stakeholders with low power and low interest like research institutes seeking an organisation data should be monitored rarely and minimum effort expended on them in terms of time and money.



In the above figure, we see categorisation of stakeholders into four groups by Mendelow's;

- **KEY PLAYERS Stakeholders:** High power, highly interested people - Organisation's aim should be to fully engage this group of stakeholders, making the greatest efforts to satisfy them, take their advice, build actions and keep them informed with all information on a regular basis. For example, Shareholders, CEO, Board of Directors, etc.

- **KEEP INFORMED Stakeholders:** Low power, highly interested people - Organisation should adequately inform this group of people and communicate with them to ensure that no major issues arise. This audiences can also help with real time feedbacks and areas of improvement for an organisation. For example, employees, vendors, suppliers, legal experts, etc.

- **KEEP SATISFIED Stakeholders:** High power, less interested people - Organisation should put in enough work with these people to keep them satisfied with their intended information on a regular basis. For example, banks, government, customers, etc.

❖ **LOW PRIORITY Stakeholders:** Low power, less interested people - Organisation should only monitor them with no actions to satisfy their expectations. Strategically, minimal efforts should be spent on this group of stakeholders while keeping an eye to check if their levels of interest or power change. For example, business magazines, media houses, etc.

An important thing that strategists should be aware of, is the importance to remember that environment is highly dynamic and certain things might happen that can cause stakeholders to suddenly move between quadrants.

For example, an organisation might inadvertently contravene a regulation, say GST compliance which would cause the regulatory body i.e. the Indirect Taxes Department to move from High Power, Low Interest to High Power, High Interest.

Activity

Identify and group the below stakeholders in the 4 groups as suggested by Mendelow for an Ecommerce startup.

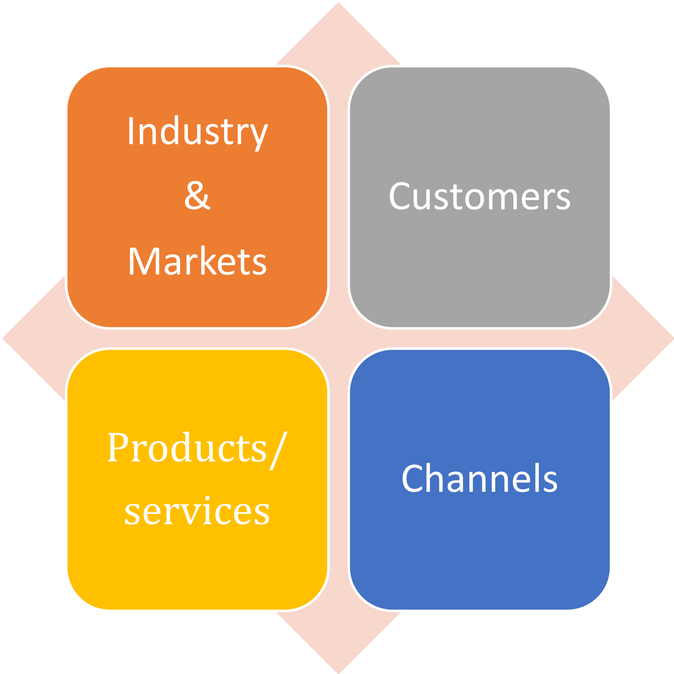
Ms. Suhasini (CEO), Mango Partners and TRIK Group (Investors), MSME Ministry, Customers from NorthEast India, Sellers from Rajasthan, Jandhan Bank (Lender), and Kumar S and Sharma T (Sr. Managers in the Co.)

Keep satisfied	**Key Players**
Low Priority	Keep Informed

Strategic drivers

An important aspect of internal analysis is assessing the current performance of the business. And in assessing current performance, the strategic drivers consider what differentiates an organisation from its competitors.

There can be varied ways to assess the current performance of a business and it is highly subjective based on the management's metrics and ways of doing business. It can either be profit driven, purpose driven or any other metrics that the management seems to fit in. But in general, the key strategic drivers of an organisation include:



Industry and markets

In terms of the internal environment, it is very important for an organisation to understand it's relative position in the industry and in the market in which it operates. There are many ways to do this but require analysis and understanding of the environment.

Similar companies are grouped together into industries. Basically, industry grouping is based on the primary product that a company makes or sells. For example, Maruti, Mahindra, Tata Motors, TVS, Bajaj Auto, are all selling auto motives as their primary product and thus categorised into Automotive Industry.

Market refers to all the buyers and sellers of a particular product/service and so it would be incorrect to say that market is the same for all businesses. Each business has its own set of customers i.e. market and more so, each product within a business has its own market. For example, for a FMCG brand selling Shampoos, Dairy Products, Flours, Washing Powder, etc. - each product line will have a separate market to cater to and therefore build strategies specific to the market of concern.

Analysing Industry and Markets

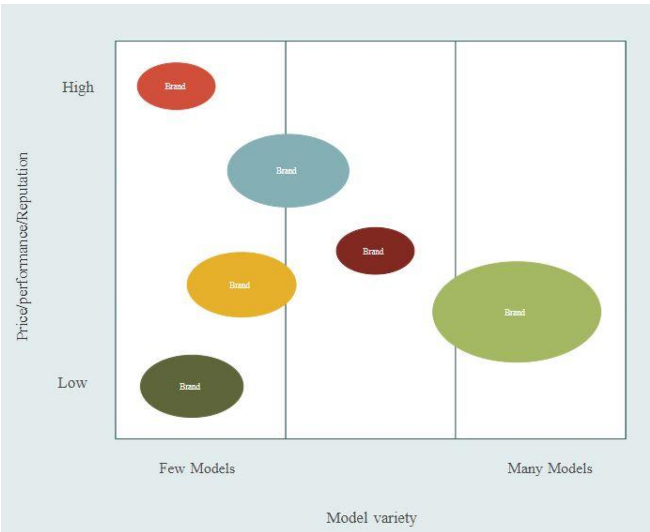
Industry and market analysis is extremely important to identify one's position as compared to the competitors, who can be of equal size and value, or bigger in size and value or even smaller and newer. A tool used for this is called - Strategic Group Mapping.

The procedure for constructing a strategic group map and deciding which firms belong in which strategic group is straightforward:

Identify the competitive characteristics that differentiate firms in the industry typical variables are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product-line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full)
Plot the firms on a two-variable map using pairs of these differentiating characteristics. Assign firms that fall in about the same strategy space to the same strategic group.

Draw circles around each strategic group making the circles proportional to the size of the group's respective share of total industry sales revenues.

Strategic Group Mapping



Explanation of Diagram (Strategic Group Mapping)

The Reputation is depicted through the size of the bubble of the company along with how high it is on the Y-Axis. While on the X-Axis, we can see how huge their product range is, whether they have few models or they have many models on offer for the customers.

A simple glance of the mapping chart shows us that even though ABC has few models, but it has great reputation in the market. Similarly, GHI has a good range of products and is the most reputed company in laptops. Another view is that XYZ and GHI have the same number of models as both are on the same place on X-Axis, but GHI has much greater reputation than XYZ, as it has a bigger bubble and is higher on the Y-Axis.

Strategists can analyze the market by making any number of scenarios like above to understand the competition. Thus, this analysis helps a business understand its competition in terms of two or more factors (like reputation and range of products in this case) in a single graphical representation.

Customers

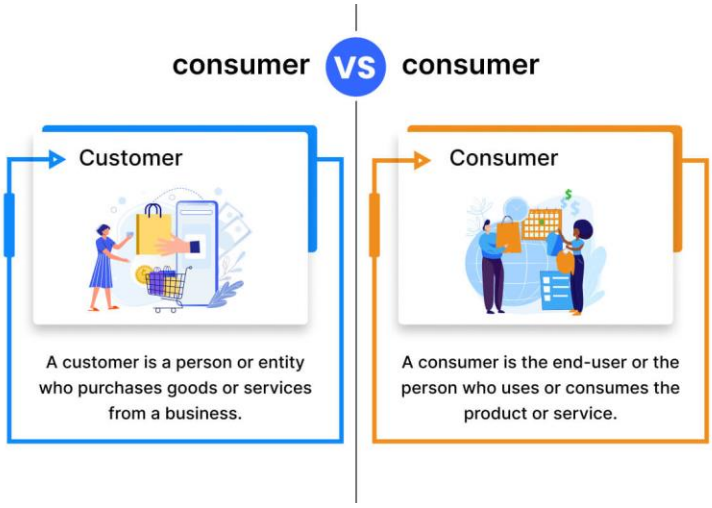
Understanding the different types of customers to whom the organisation's products/services are sold or provided, is not only important but also the first step in deciding the product/service. Different customers may have different needs and require different sales models or distribution channels.

As customers are often responsible for the generation of profits obtained by an organisation, it is important to be able to collect and display data in order to show customer trends and profitability. Issues with customers can be identified, and target areas for growth can be pursued based on the findings.

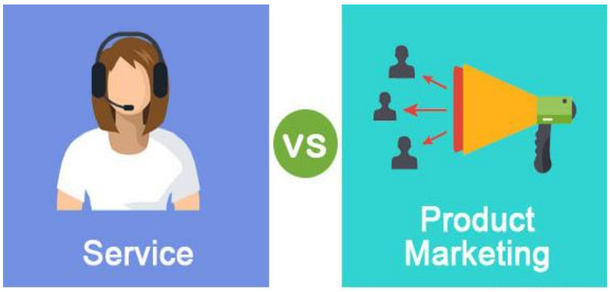
Another interesting concept is the difference between Customer and Consumer - while a customer is the one buys a product/service, the consumer is the one who finally uses/consumes the bought product or service. For example - A parent buying stationery products for their kids might be the customers, but consumers of stationery are the kids who would actually use it. Thus, understanding both is important for the marketers.

Customer versus consumer

A simple bifurcation yet extremely important for strategy build up. Consumers are the ones who finally use a product/service, while customers are the buyers of that product. A customer can be a consumer and vice versa. But for strategy teams especially marketing teams it is important to understand the customer and consumer separately.



Product / services



Products and services are closely linked and interrelated with the markets that the organisation wants to serve. In this component of the strategic drivers' analysis, business identifies the key products/ services that the organisation offers and how those products/services are performing. It attempts to answer the general question: What business are we in and what should be done to win over Competition in each product/service we serve.

Product stands for the combination of "goods-and-services" that the company offers to the target market. Strategies are needed for managing existing product over time, adding new ones and dropping failed products. Strategic decisions must also be made regarding branding, packaging and other product features such as warranties. The products can also be classified on the basis of industrial or consumer products, essentials or luxury products, durables or perishables.

Organizations formalize product differentiation through designating 'brand names' to their respective products. These are generally reinforced with legal sanction and protection. Brands enable customers to identify the product and the organization behind it. The products and even firms' image is built around brands through advertising and other promotional strategies. Customers tend to develop strong brand loyalty for a particular product over a period of time.

For a new product, pricing strategies for entering a market need to be designed and for that matter at least three objectives must be kept in mind:

- have customer - cerntric approach while making a product.
- Produce sufficient returns through a resonable margin over cost.
- Increasing market share

Products and services need heavy investment in reaching out to customers. Over the years, a number of marketing strategies have been evolved, which are given to handle marketing strategically and fight the competition in the market.

- **Social Marketing:** It refers to the design, implementation, and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a Target group to bring in a social change. For instance, the publicity campaign for prohibition of smoking in Delhi explained the place where one can and can't smoke and also indicates that smoking is injurious to health.

Augmented Marketing

- Augmented Marketing: This type of marketi -ng includes additional customer services and Benefits that a product can offer besides the core and actual product that is being offered. It can be in the form of introduction of hi-tech services like movies on demand, online computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.

❖ **Direct Marketing:** Marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response. Direct marketing includes catalogue selling, e-mail, telecommuting, electronic marketing, shopping, and TV shopping.

❖ **Relationship Marketing:** The process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholders. For example, Airlines offer special lounges at major airports for frequent flyers. Thus, providing special benefits to select customers to strengthen bonds. It can go a long way in building relationships.

❖ **Services Marketing:** It is applying the concepts, tools, and techniques, of marketing to services. Services is any activity or benefit that one party can offer to another that is essentially intangible. This Marketing requires different marketing strategies since it has peculiar characteristics of its own such as inseparability, variability etc.

❖ **Person Marketing:** People can also be marketed. Person marketing consists of activities undertaken to create, maintain or change attitudes and behaviour towards particular person. For example, politicians, sports stars, film stars, etc. i.e., market themselves to get votes, or to promote their careers.

- **Organization Marketing:** It consists of activities undertaken to create, maintain, or change attitudes and behaviour of target audiences towards an organization. Both profit and non-profit organizations practice organization marketing. Place Marketing: Place marketing involves activities under Taken to create, maintain, or change attitudes and behaviour towards particular places say, marketing of business sites, tourism marketing.

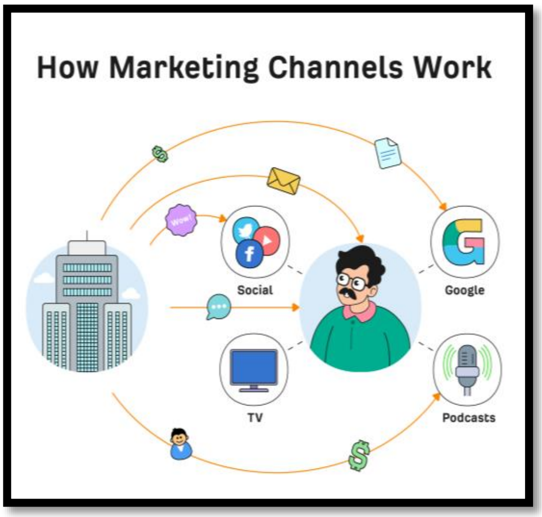
- **Enlightened Marketing:** It is a marketing philosophy holding that a company's marketing should support the best long-run performance of the marketing system that is beyond the prevailing mindset; its five principles include customer-oriented marketing, innovative marketing, value marketing, sense-of-mission marketing, and societal marketing.

- **Differential Marketing:** It is a market-coverage strategy in which a firm decides to target several market segments and designs separate offer for each. For example, Hindustan Unilever Limited has Lifebuoy, Lux and Rexona in popular segment and Dove and Pears in premium segment.

- **Synchro-marketing:** When the demand for a product is irregular due to season, some parts of the day, or on hour basis, causing idle capacity or overworked capacities, synchro-marketing can be used to find ways to alter the pattern of demand through flexible pricing, promotion, and other incentives. For example, products such as movie tickets can be sold at lower price over weekdays to generate demand.

- **Concentrated Marketing:** It is a market-coverage strategy in which a firm goes after a large share of one or few sub-markets. It can also take the form of Niche marketing.
- **Demarketing:** It includes marketing strategies to reduce demand temporarily or permanently. The aim is not to destroy demand, but only to reduce or shift it. This happens when there is overfull demand. For example, buses are overloaded in the morning and evening, roads are busy for most of times, zoological parks are over-crowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand.

Channels



Channels are the distribution system by which an organisation distributes its product or provides its service. To understand the concept of channels let us see some examples of how the following companies distribute their products and services; Boat Headphones - only online via e-commerce platforms like flipkart and amazon Coca Cola - retail shops across the nation, in each district, each town as well as online mode via dunzo, blinkit, etc.

All the above are the channels via which companies sell their products and services to the customers. The wider and stronger the channel the better position a business has to fight and win over competition. Also, having robust channels of business distribution help keep new players away from entering the industry, thus acting as barriers to entry.

There are typically three channels that should be considered: sales channel, product channel and service channel.

- **The sales channel -** These are the intermediaries involved in selling the product through each channel and ultimately to the end user. For example, many fashion designers use agencies to sell their products to retail organisations, so that consumers can access them.

- **The product channel -** The product channel focuses on the series of intermediaries who physically handle the product on its path from its producer to the end user. This is true of Australia Post, who delivers and distributes many online purchases between the seller and purchaser when using eBay and other online stores.

- **The service channel -** The service channel refers to the entities that provide necessary services to support the product, as it moves through the sales channel and after purchase by the end user. The service channel is an important consideration for products that are complex in terms of installation or customer assistance. For example, a Bosch dishwasher may be sold in a Bosch showroom, and then once sold it is installed by a Bosch contracted plumber.

Channel analysis is important when the business strategy is to scale up and expand beyond the current geographies and markets. When a business plans to grow to newer markets, they need to develop or leverage existing channels to get to new customers. Thus, analysis of channels that suit one's products and customers is of utmost importance.

For example - if a healthcare brand wants to reach out to elderly customers - they need to be more focused on offline mode of business where agents reach out physically to the elderly as most of their potential customers (i.e. the old aged) are not active on smartphones.

Thus, channels, the partners in growth, play a crucial role in internal strategic alignment.

Ever been to a hill station or a desert or a far-off location on vacation, and still had access to bottled water and cold drinks?

This is possible because of strong channels of distribution. Some of the most renowned brands who have created competitive advantage in channels are Coca Cola, HUL, Patanjali, Asian Paints, Ola, to name a few.

ROLE OF RESOURCES AND CAPABILITIES: BUILDING CORE COMPETENCY

An organization may be viewed as an entity endowed with resources and capabilities. These resources and capabilities may be so synergized as to impart distinct competencies that the organization may leverage to its advantage. C.K. Prahalad and Gary Hamel have advocated a concept of core competency, which is a widely used concept in management theories. They defined core competency as the collective learning in the organization, especially coordinating diverse production skills and integrating multiple streams of technologies. An organization's combination of technological and managerial know-how, wisdom and experience are a complex set of capabilities and resources that can lead to a competitive advantage compared to a competitor.

According to C.K. Prahalad and Gary Hamel, major core competencies are identified in three areas –

Competitor differentiation,

Customer value, and

Application to other markets

- Competitor differentiation is one of the main three conditions. The company can consider having a core competence if the competence is unique and it is difficult for competitors to imitate. This can provide a company an edge compared to competitors. It allows the company to provide better products or services to market with no fear that competitors can copy it. The company has to keep on improving these skills in order to sustain its competitive position.

- The second condition to be met is customer value. When purchasing a product or service it has to deliver a fundamental benefit for the end customer in order to be a core competence. It will include all the skills needed to provide fundamental benefits. The service or the product has to have real impact on the customer as the reason to choose to purchase them.

- The last condition refers to application of competencies to other markets. Core competence must be applicable to the whole organization; it cannot be only one particular skill or specified area of expertise. Thus, a core competence is a unique set of skills and expertise, which will be used throughout the organisation to open up potential markets to be exploited.

If the three above-mentioned conditions are met, then the company can regard it competence as core competency.

Core competencies are often visible in the form of organizational functions. For example, Marketing and Sales is a core competence of Hindustan Unilever Limited (HUL) This means that HUL has used its resources to form marketing related capabilities that in turn allow it to market its products in ways that are superior those of competitors. Because of this core competence, HUL is capable of launching new brands in the market successfully.

Core technological competencies are also corporate assets; and as assets, they facilitate corporate access to a variety of markets and businesses. For competitive advantage, a core technological competence should be difficult for the competitors to imitate.

Criteria for building a core competencies (cc)?

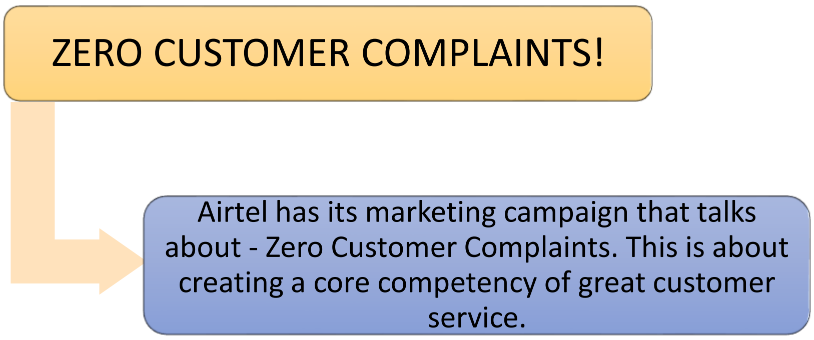
Four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies. Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies.

I. **Valuable:** Valuable capabilities are the ones that allow the firm to exploit opportunities or avert the threats in its external environment. A firm created value for customers by effectively using capabilities to exploit opportunities.

II. **Rare:** Core competencies are very rare capabilities and very few of the competitors possess this. Capabilities possessed by many rivals are unlikely to be sources of competitive advantage for any one of them. Competitive advantage results only when firms develop and exploit valuable capabilities that differ from those shared with competitors.

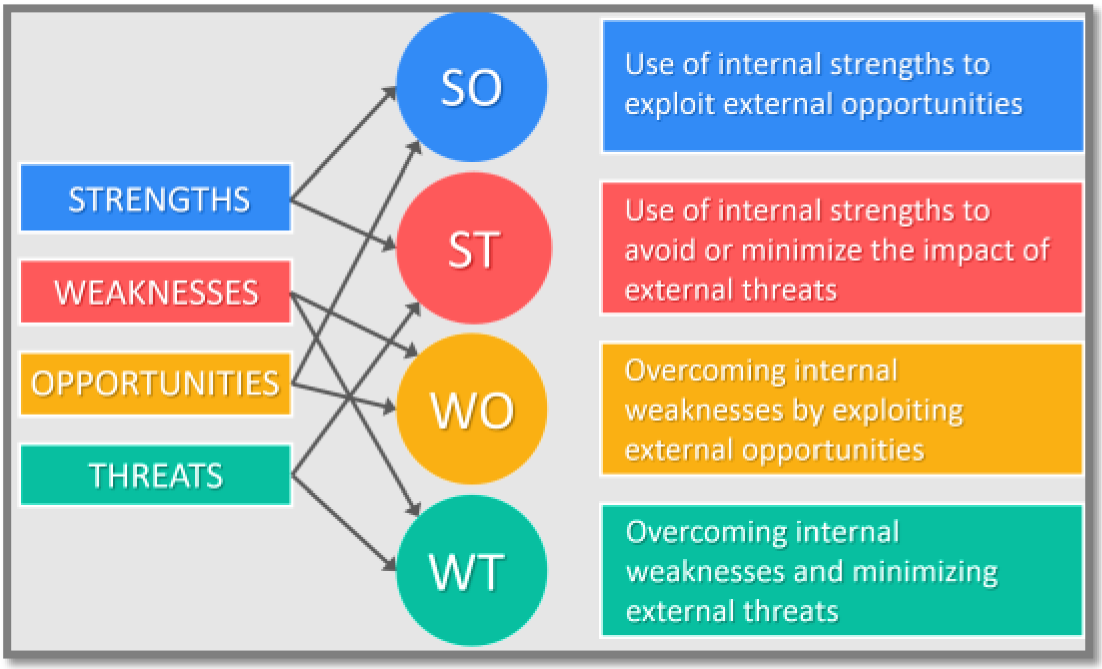
III. **Costly to imitate:** Costly to imitate means such capabilities that competing firms are unable to develop easily. The product could be imitated in due course of time, but it was much more difficult to imitate the R&D cycle time capability.

IV. **Non-substitutable:** Capabilities that do not have strategic equivalents are called non-substitutable capabilities. This final criterion for a capability to be a source of competitive advantage is that there must be no strategically equivalent valuable resources that are themselves either not rare or imitable. For example, For years, firms tried to imitate Tata's low-cost strategy, but most have been unable to duplicate Tata's success.



COMBINING EXTERNAL AND INTERNAL ANALYSIS (SWOT ANALYSIS)

SWOT analysis is the analysis of a business's strengths, weaknesses, opportunities and threats. The primary objective of a SWOT analysis is to help organizations develop a full awareness of all the factors (external as well as internal), involved in making a business decision.



SWOT analysis shall be implemented before all company actions, whether it is exploring new initiatives, revamping internal policies, considering opportunities to grow or alter a plan midway. One shall also us SWOT analysis to discover recommendations and strategies, with a focus on leveraging strengths and opportunities to overcome weaknesses and threats.
Since its creation, SWOT has been the most widely used tools for business owners to grow their companies. Sometimes it's wise to perform SWOT analysis just to check on the current landscape of your business to improve business operations as needed. The analysis can show areas where an organization is performing well, as well as areas that need improvement.

Let us understand with an example of a law firm - what could its SWOT analysis help understand about its business.

SWOT Analysis for Internal or External Environment?
SWOT stands for Strengths, Weaknesses, Opportunities and Threats. Internal analysis is more focused on understanding the existing structure and competencies of the business, thus highlighting the Strengths and Weaknesses, while External Analysis is about identifying and preparing for uncontrollable which can either be Opportunities or threats. Therefore, SWOT Analysis is a tool which is used for both Internal and External Analysis.

Competitive advantage: using micharl porter's generic strategies

Why do some companies succeed while others fail?
Why did Hindustan Motors do so well for several decades?
How did Apple return from near obsolescence in the late 1990s and become the world leader and a dominant technology company of today?
In the Indian airline industry, how has Indigo Airlines managed to keep increasing its revenues and profits through both good times and bad, while rivals struggled?

For most, if not all, companies, achieving superior performance relative to rivals is the ultimate challenge. If a company's strategies result in superior performance, it is said to have a competitive advantage.

Strategic management involves development of competencies that managers can use to achieve better performance and a competitive advantage for their organization. Competitive advantage allows a firm to gain an edge over rivals when competing. 'It is a set of unique features of a company and its products that are perceived by the target market as significant and superior to the competition.'
In other words, an organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry.

> **"If you don't have a competitive advantage, don't compete"**
>
> **- Jack Welch**

The competitive advantage is the achieved advantage over rivals when a company's profitability is greater than the average profitability of firms in its industry. It is achieved when the firm successfully formulates and implements the value creation strategy and other firms are unable to duplicate it or find it too costly to imitate. Further, it can be said that a firm is successful in achieving competitive advantage only after other firm's efforts to duplicate or imitate it fails.

Sustainability of competitive advantage

The sustainability of competitive advantage and a firm's ability to earn profits from its competitive advantage depends upon four major characteristics of resources and capabilities:

I. **Durability:** The period over which a competitive advantage is sustained depends in part on the rate at which a firm's resource and capabilities deteriorate. In industries where the rate of product innovation is fast, product patents are quite likely to become obsolete.

II. **Transferability:** Even if the resources and capabilities on which a competitive advantage is based are durable, it is likely to be eroded by competition from rivals. The ability of rivals to attack position of competitive advantage relies on their gaining access to the necessary resources and capabilities. The easier it is to transfer resources and capabilities between companies, the less sustainable will be the competitive advantage which is based on them.

III. **Imitability:** If resources and capabilities cannot be purchased by a would-be imitator, then they must be built from scratch. How easily and quickly can the competitors build the resources and capabilities on which a firm's competitive advantage is based? This is the true test of imitability. For example, In financial services, innovations lack legal protection and are easily copied. Here again the complexity of many organizational capabilities can provide a degree of competitive defense. Where capabilities require networks of organizational routines, whose effectiveness depends on the corporate culture, imitation is difficult.

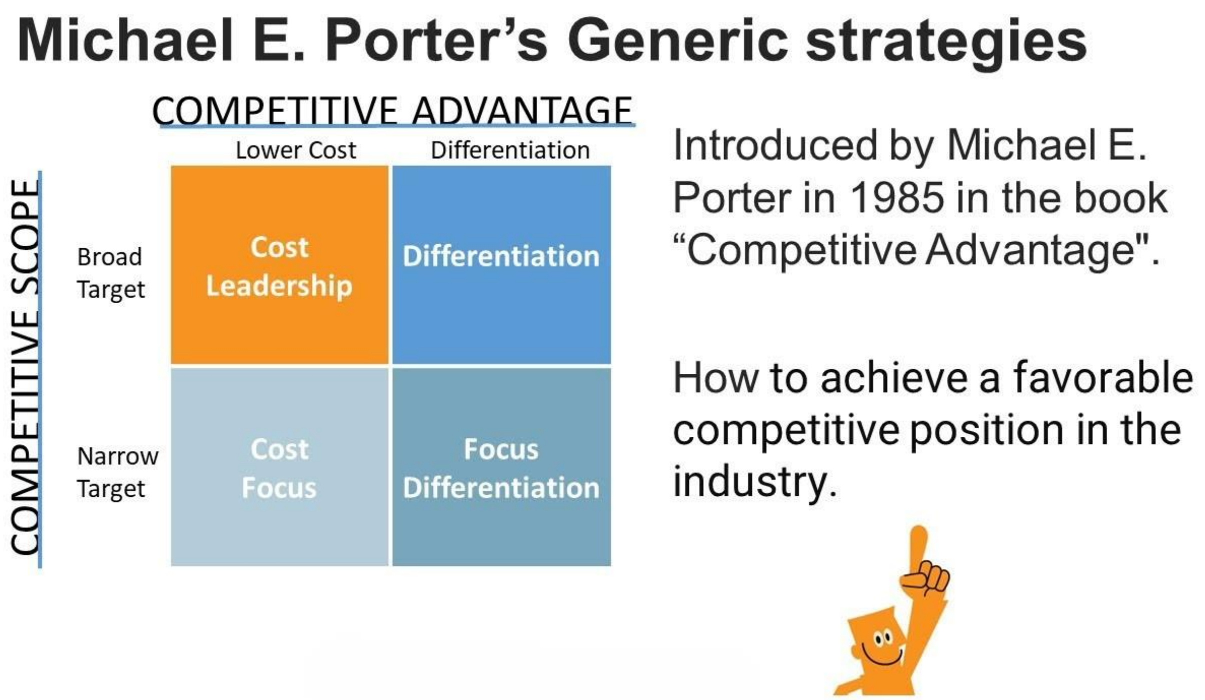
IV. **Appropriability:** Appropriability refers to the ability of the firm's owners to appropriate the returns on its resource base. Even where resources and capabilities are capable of offering sustainable advantage, there is an issue as to who receives the returns on these resources. This means that rewards are directed to from where the funds were invested, rather than creating an advantage with no actual reward to people to invested capital.

Michael Porter's Generic Strategies

According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies. These strategies have been termed generic, because they can be pursued by any type or size of business firm and even by not-for-profit organisations.

- Cost leadership emphasizes on producing standardized products at a very low per-unit cost for consumers who are price-sensitive.
- Differentiation is a strategy aimed at producing products and services considered unique industry-wide and directed at consumers who are relatively price-insensitive.
- Focus means producing products and services that fulfil the needs of small groups of consumers with very specific taste.

Porter's strategies imply different organizational arrangements, control procedures, and incentive systems. Larger firms with greater access to resources typically compete on a cost leadership and/or differentiation basis, whereas smaller firms often compete on a focus basis.



Cost leadership strategy

It is a low-cost competitive strategy that aims at broad mass market. It requires vigorous pursuit of cost reduction in the areas of procurement, production, storage and distribution of product or service and also economies in overhead costs. Because of its lower costs, the cost leader is able to charge a lower price for its products than most of its competitors and still earn satisfactory profits.
For example, McDonald's fast-food

A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits. Generally, cost leadership must be pursued in conjunction with differentiation. A number of cost elements affect the relative attractiveness of generic strategies, including economies or diseconomies of scale achieved, learning and experience curve effects, the percentage of capacity utilization achieved, and linkages with suppliers and distributors.

Striving to be a low-cost producer in an industry can especially be effective,

when the market is composed of many price-sensitive buyers and

when there are few ways to achieve product differentiation.

Further, when buyers do not care much about differences from brand to brand, or when there are a large number of buyers with significant bargaining power. The basic idea is to under-price competitors and thereby gain market share driving some of the competitors out of the market.

A successful cost leadership strategy usually permeates the entire firm, as evidenced by high efficiency, low overheads, limited perks, intolerance of waste, intensive screening of budget requests, wide span of controls, rewards linked to cost containment, and broad employee participation in cost control efforts.

Some risks of pursuing cost leadership are;

- That competitors may imitate the strategy, therefore driving overall industry profits down;
- that technological breakthroughs in the industry may make the strategy ineffective; or that buyer interests may swing to other differentiating features besides price.
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Achieving Cost Leadership Strategy

To achieve cost leadership, following actions could be taken:

- Prompt forecasting of demand of a product or service.
- Optimum utilization of the resources to achieve cost advantages.
- Achieving economies of scale; thus, lower per unit cost of product/service.
- Invest in cost saving technologies and using advance technology for smart efficient working.

Advantages of cost leadership strategy

A cost leadership strategy may help to remain profitable even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

- Rivalry – Competitors are likely to avoid a price war, since the low-cost firm will continue to earn profits even after competitors compete away their profits.

- Buyers – Powerful buyers/customers would not be able to exploit the cost leader firm and will continue to buy its product.

- Suppliers – Cost leaders are able to absorb greater price increases from suppliers before they need to raise prices for customers.

- Entrants – Low-cost leaders create barriers to market entry through their continuous focus on efficiency and cost reduction.

- Substitutes – Low-cost leaders are more likely to lower the costs to induce existing customers to stay with their products, invest in developing substitutes, and even purchase patents.

Disadvantages of Cost Leadership Strategy

- Cost advantage may not last long as competitors may imitate cost reduction techniques.
- Cost leadership can succeed only if the firm can achieve higher sales volume.
- Cost leaders tend to keep their costs low by minimizing cost of advertising, market research, and research and development, but this approach can prove to be expensive in the long run.
- Technological advancement areas a great threat to cost leaders.

Differentiation strategy

DIFFERENTIATION STRATEGY

This strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service. Because of differentiation, the business can charge a premium for its product. For example, Domino's Pizza has been offering home delivery within 30 minutes or the order is free, is a unique selling point that differentiates if from its rivals.

Differentiation does not guarantee competitive advantage, especially if standard products sufficiently meet customer needs or if rapid imitation by competitors is possible. Durable products protected by barriers to quick imitation by competitors' areas better. Successful differentiation can mean greater product flexibility, greater compatibility, lower costs, improved service, less maintenance, greater convenience, or more features. Product development is an example of a strategy that offers the advantages of differentiation.

A risk associated with pursuing a differentiation strategy is that the unique product may not be valued high enough by customers to justify the higher price. When this happens, a cost leadership strategy will easily defeat a differentiation strategy. Another risk of pursuing a differentiation strategy is that competitors may develop ways to copy the differentiating features quickly. Firms must find durable sources of uniqueness that cannot be imitated quickly or cheaply by rival firms.

For example, Amazon Prime offers deliver within two hours. This is quite difficult to imitate by its rivals, and thus this differentiating factor helps it to lead the market.

Basis of Differentiation

There are several bases of differentiation, major being: Product, Pricing and Organization.

- **Product:** Innovative products that meet customer needs can be an area where a company has an advantage over competitors. However, the pursuit of a new product offering can be costly – research and development, as well as production and marketing costs can all add to the cost of production and distribution.

- **Pricing:** It fluctuates based on its supply and demand and may also be influenced by the customer's ideal value for a product. Companies that differentiate based on product price can either determine to offer the lowest price or can attempt to establish superiority through higher prices.

- **Organisation:** Organisational differentiation is yet another form of differentiation. Maximizing the power of a brand or using the specific advantages that an organization possesses can be instrumental to a company's success. Location advantage, name recognition and customer loyalty can all provide additional ways for a company differentiate itself from the competition.

Achieving Differentiation Strategy

To achieve differentiation, following strategies could be adopted by an organisation:

1. Offer utility to the customers and match products with their tastes and preferences.
2. Elevate/Improve performance of the product.
3. Offer the high-quality product/service for buyer satisfaction.
4. Rapid product innovation to keep up with dynamic environment.
5. Taking steps for enhancing brand image and brand value.
6. Fixing product prices based on the unique features of product and buying capacity of the customer.

Advantages of Differentiation Strategy

A differentiation strategy may help an organisation to remain profitable even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

1. Rivalry - Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.
2. Buyers – They do not negotiate for price as they get special features and they have fewer options in the market.

3. Suppliers – Because differentiators charge a premium price, they can afford to absorb higher costs of supplies as the customers are willing to pay extra too.

4. Entrants – Innovative features are an expensive offer. So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.

5. Substitutes – Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.

Disadvantages of Differentiation Strategy

1. In the long term, uniqueness is difficult to sustain.
2. Charging too high a price for differentiated features may cause the customer to switch-off to another alternative. As we see a shift of iPhone users to other android flagship smart phones.
3. Differentiation fails to work if its basis is something that is not valued by the customers. Home delivery of packed snacks in 30 minutes would not even be a differentiator as the consumer wouldn't value such an offer.

Focus strategies

A successful focus strategy depends on an industry segment that is of sufficient size, has good growth potential, and is not crucial to the success of other major competitors. Strategies such as market penetration (new product for existing customers) and market development (new product for new customers) offer substantial focusing advantages. Midsize and large firms can effectively pursue focus-based strategies only in conjunction with differentiation or cost leadership-based strategies. All firms in essence follow a differentiated strategy. Because only one firm can differentiate itself with the lowest cost, the remaining firms in the industry must find other ways to differentiate their products.

- **Focused cost leadership:** A focused cost leadership strategy requires competing based on price to target a narrow market. A firm that follows this strategy does not necessarily charge the lowest prices in the industry.

- **Focused differentiation:** A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market. Similar to focused low- cost strategy, narrow markets are defined in different ways in different settings. For example, Rolls-Royce sells limited number of high-end, custom-built cars.

Achieving focused startegy

To achieve focused cost leadership/differentiation, following strategies could be adopted by an organization:

1. Selecting specific niches which are not covered by cost leaders and differentiators.
2. Creating superior skills for catering such niche markets.
3. Generating high efficiencies for serving such niche markets.
4. Developing innovative ways in managing the value chain.

Advantages of Focused Strategy

1. Premium prices can be charged by the organisations for their focused product/services.
2. Due to the tremendous expertise in the goods and services that the organisations following focus strategy offer, rivals and new entrants may find it difficult to compete.

Disadvantages of Focused Strategy

1. The firms lacking in distinctive competencies may not be able to pursue focus strategy.
2. Due to the limited demand of product/services, costs are high, which can cause problems.
3. In the long run, the niche could disappear or be taken over by larger competitors by acquiring the same distinctive competencies.

Best-Cost Provider Strategy

The new model of best cost provider strategy is a further development of above three generic strategies. It is directed towards giving customers more value for the money by emphasizing on both, low cost and upscale differences. The objective is to keep costs and prices lower than those of other sellers of “comparable products".

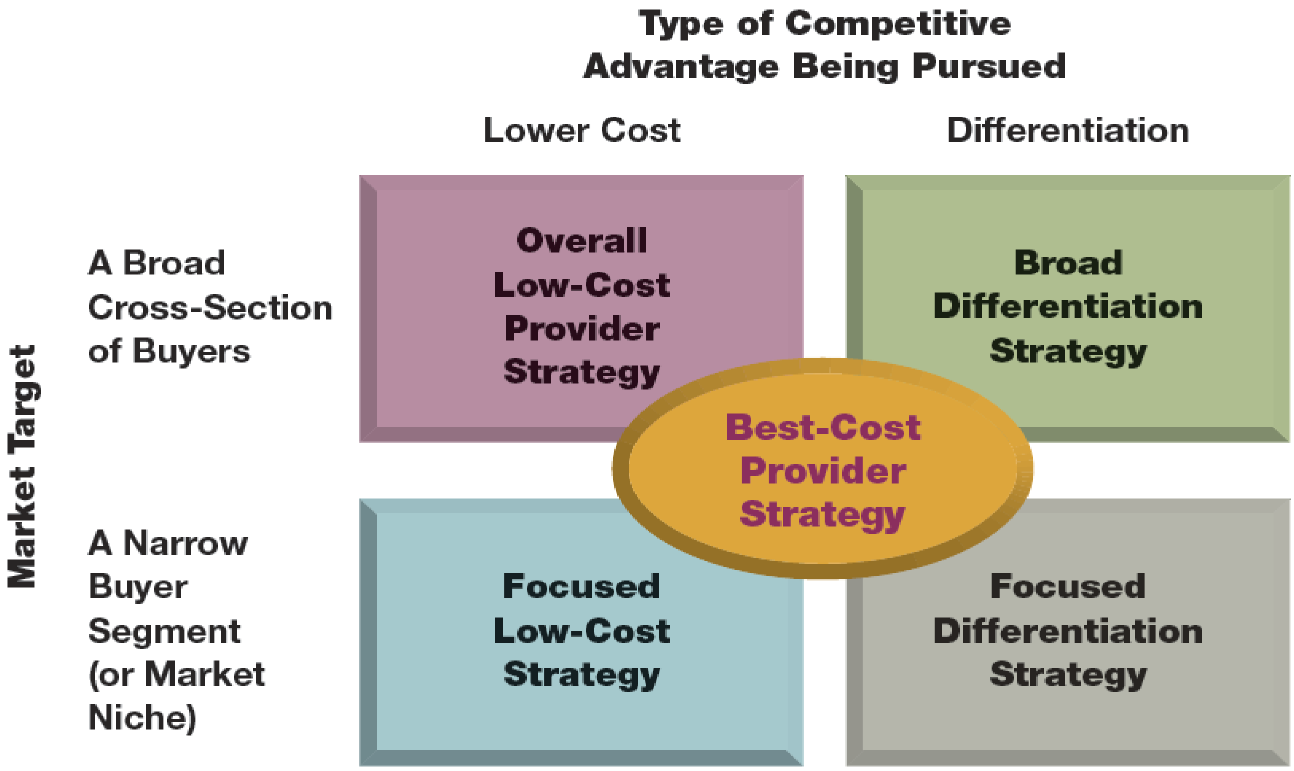

Figure: The Five Generic Competitive Strategies

Best-cost provider strategy involves providing customers more value for the money by emphasizing on lower cost and better-quality differences. It can be done through:

a) offering products at lower price than what is being offered by rivals for products with comparable quality and features

Or

b) Charging similar price as by the rivals for products with much higher quality and better features.

Activity for Michael Porter's Generic Strategies

Use the blank space against each business idea to identify which generic strategy is being used;

Business Idea	Michael Porter's Generic Strategy
Building the best in class headphones with noise cancellation and premium quality ear cushions	
Providing maximum value features in a phone which is within the spendable limits of the middle class of India	
Being in a position to dominate the glass manufacturing units across the country and thus using economies of scale to beat competition	
Targeting the below poverty line individuals and providing them nutritious meals	