

Porter's Generic Strategies

- **Strategic positioning is where a business wants to be in the market relative to other business**
- Based on consumers' perception
- The decision as to which markets to compete in and which products to offer have already been made so the decision now is one of where to compete in that market with those products
- Strategic positioning can be analysed using:
 - **Porter's** low cost, differentiation and focus strategies

What is a Competitive Advantage?

An advantage over competitors gained by offering consumers **greater value**, either by means of lower prices or by providing greater benefits and service that justifies higher prices

Q: How can a business offer **GREATER VALUE?**

The Two Key Sources of Competitive Advantage

Cost Advantage

Where a business is able to produce its product at lower cost than the competition

Differentiation Advantage

Where a business is able to differentiate its product from the competition such that customers perceive superior value



Porter's Generic Strategy

Lowest
Cost

Highest
Differentiation

Mass
Market

Cost
Leadership

Differentiation

Niche
Market

Focused Cost
Leadership

Focused
Differentiation

Low Cost Strategy

With this strategy, the objective is to become the **lowest-cost operator. This typically involves production on a large scale which enables the business to exploit **economies of scale**.**

Why Low Cost is a Source of Competitive Advantage

Why is cost leadership important?

- If selling prices are broadly similar, the lowest-cost operator will enjoy the highest profits
- Lowest-cost operator can also offer the lowest prices (gain market share)

Suitable markets for this strategy?

- Standard product
- Little product differentiation
- Branding relatively unimportant



Likely Features of a Low Cost Operators

- High levels of productivity & efficiency
- High capacity utilisation
- Large scale = economies
- Use bargaining power to negotiate lowest prices from suppliers
- Lean production methods and culture
- Access to the widest and most important distribution channels

Strategy of Focus & **Differentiation**

With a differentiation strategy, aims to offer a product that is distinctively **different** from the competition, with the **customer valuing** that differentiation



Porter's Generic Strategy - differentiation

- Porter states that a strategy of differentiation can be successful in either a mass or niche market
- He refers to this as differentiation, in the mass market, and focused differentiation, in a niche market
- Differentiation means being able to offer a good or service that stands out from the competition
 - Product – has to appear better than the competition e.g. USP or patents
 - Promotion – create desire, exclusivity, brand loyalty
 - Operational objectives will focus on R&D and innovation

Ways to for a Business to Achieve Differentiation

- **Superior product quality** (features, benefits, durability, reliability)
- **Branding** (strong customer recognition & desire; brand loyalty)
- **Wide distribution** across all major channels (i.e. the product or brand is an essential item to be stocked by retailers)
- **Sustained promotion** – often dominated by advertising, sponsorship etc

Influences on the choice of a positioning strategy



Strategic direction – which market and which products



The competitive nature of the business and relative position of competitors e.g. is there a gap?



Corporate objective



Core competences of the business



Market conditions i.e. PESTEL environment



SWOT analysis

Competitive advantage

What actions can a business take to try and achieve a sustainable competitive advantage ?

Benefits of a competitive advantage

- Customer loyalty
- Potential to charge a premium price
- Market share
- Reputation as low cost or highly differentiated therefore seen as higher added value
- Create barriers to entry

Difficulties of maintaining a competitive advantage

- Competitors' actions e.g. copying or responding to strategy
- Inability to maintain barriers to entry
- Changing external environment