



對外經濟貿易大學
UNIVERSITY OF INTERNATIONAL BUSINESS AND ECONOMICS

Chapter 4

**Crafting a strategy: the
quest for competitive
advantage**

The Five Competitive Strategies

Learning Objectives

- Five Competitive Strategies
- Low-Cost Provider Strategies
- Differentiation Strategies
- Best-Cost Provider Strategies
- Focused (or Market Niche) Strategies



Objective 1

Five Competitive Strategies



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Strategy and Competitive Advantage

- **Competitive advantage** exists when a firm's strategy gives it an edge in
 - Attracting customers **and**
 - Defending against competitive forces
- Convince customers firm's product / service offers **superior value**
 - A **good product** at a **low price**
 - A **superior product** worth paying more for
 - A **best-value product**

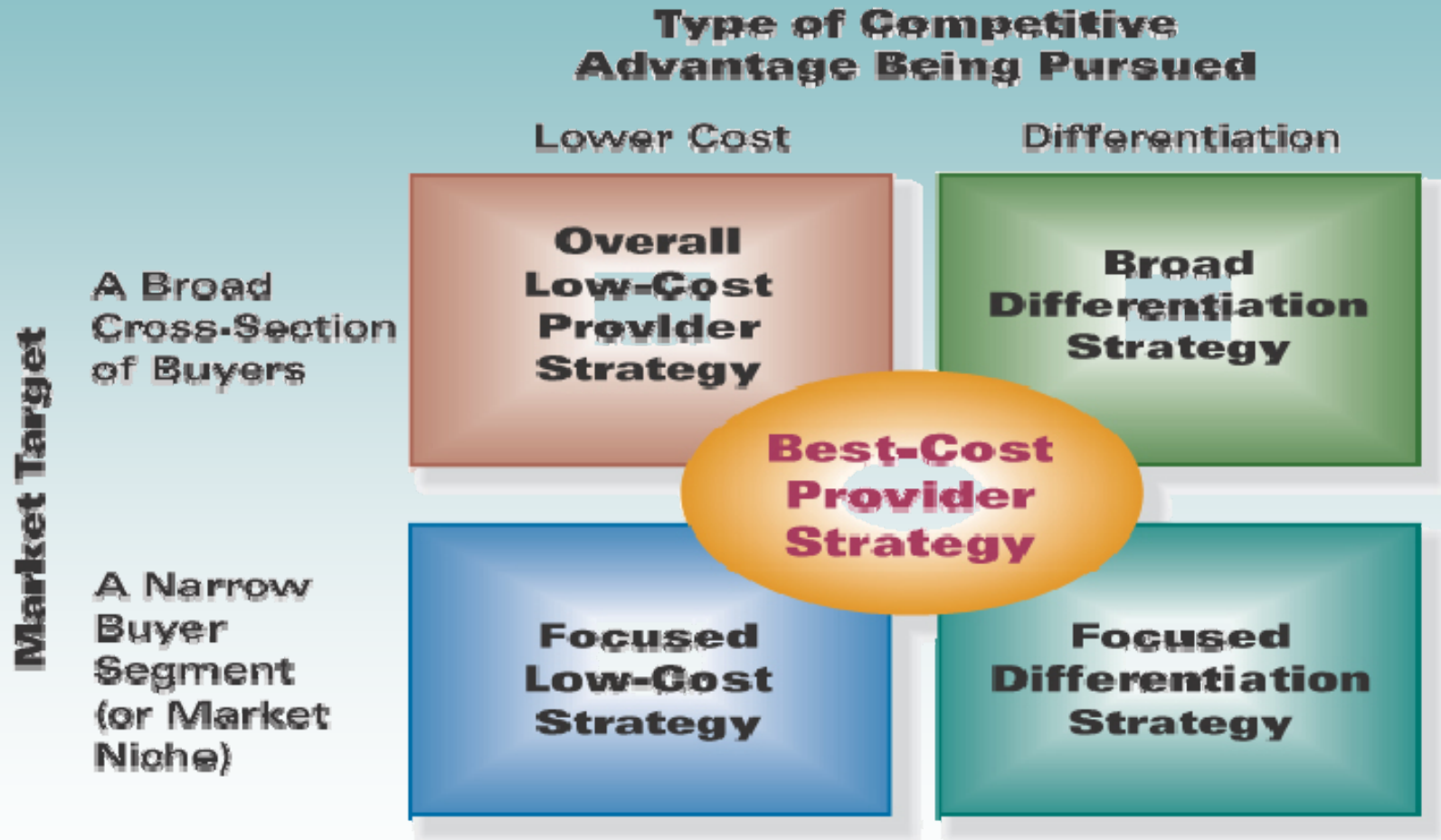


What Is “Competitive Strategy”?

- Deals exclusively with a company’s business *plans* to *compete successfully*
 - Specific *efforts* to *please customers*
 - *Offensive and defensive moves* to *counter maneuvers* of rivals
 - *Responses* to prevailing *market conditions*
 - *Initiatives* to *strengthen its market position*
- *Narrower in scope* than business strategy



Fig. 4.1: The Five Generic Competitive Strategies



Objective 2

Low-Cost Provider Strategies



Low-Cost Provider Strategies

- Make achievement of *meaningful lower costs* than rivals the *theme* of firm's strategy
- Include *features and services* in product offering that buyers consider *essential*
- Find approaches to *achieve a cost advantage* in ways *difficult* for rivals to *copy or match*



Options: Achieving a Low-Cost Advantage

Option 1: Use lower-cost edge to

- Underprice competitors and attract price-sensitive buyers in enough numbers to increase total profits

Option 2: Maintain present price, be content with present market share, and use lower-cost edge to

- Earn a higher profit margin on each unit sold, thereby increasing total profits



Approaches to Securing a Cost Advantage

Approach 1

Do a better job than rivals of performing value chain activities efficiently and cost effectively

Approach 2

Revamp value chain to bypass cost-producing activities that add little value from the buyer's perspective



Characteristics of a Low-Cost Provider

- Cost conscious corporate culture
- Employee participation in cost-control efforts
- Ongoing efforts to benchmark costs
- Intensive scrutiny of budget requests
- Programs promoting continuous cost improvement



When Does a Low-Cost Strategy Work Best?

- Price competition is vigorous
- Product is standardized or readily available from many suppliers
- There are few ways to achieve differentiation that have value to buyers
- Most buyers use product in same ways
- Buyers incur low switching costs
- Buyers are large and have significant bargaining power
- Industry newcomers use introductory low prices to attract buyers and build customer base



Pitfalls of Low-Cost Strategies

- Being overly aggressive in cutting price
- Low cost methods are easily imitated by rivals
- Becoming too fixated on reducing costs and ignoring
 - Buyer interest in additional features
 - Declining buyer sensitivity to price
 - Changes in how the product is used
- Technological breakthroughs open up cost reductions for rivals



Objective 3

Differentiation Strategies



Differentiation Strategies

- Incorporate *differentiating features* that cause buyers to *prefer* firm's *product or service* over brands of rivals
- Find ways to differentiate that *create value* for buyers and are *not easily matched* or *cheaply copied* by rivals
- *Not spending more* to achieve differentiation *than* the *price premium* that can be *charged*



Sustaining Differentiation: Keys to Competitive Advantage

- Most ***appealing approaches*** to differentiation
 - Those ***hardest for rivals to match or imitate***
 - Those ***buyers will find most appealing***
- ***Best choices*** to ***gain*** a longer-lasting, more profitable ***competitive edge***
 - New product innovation
 - Technical superiority
 - Product quality and reliability
 - Comprehensive customer service
 - Unique competitive capabilities



How to Achieve a Differentiation-Based Advantage

Approach 1

Incorporate product features/attributes that *lower buyer's overall costs* of using product

Approach 2

Incorporate features/attributes that *raise the performance a buyer gets* out of the product

Approach 3

Incorporate features/attributes that *enhance buyer satisfaction* in non-economic or intangible ways

Approach 4

Compete on the basis of *superior capabilities*



When Does a Differentiation Strategy Work Best?

- There are many ways to differentiate a product that have value and please customers
- Buyer needs and uses are diverse
- Few rivals are following a similar differentiation approach
- Technological change and product innovation are fast-paced



Objective 4

Best-Cost Provider Strategies



Best-Cost Provider Strategies

- **Combine** a **strategic emphasis** on **low-cost** with a strategic emphasis on **differentiation**
 - Make an upscale product at a lower cost
 - Give customers more value for the money

Objectives

- Deliver superior value by meeting or exceeding buyer expectations on product attributes and beating their price expectations
- Be the low-cost provider of a product with good-to-excellent product attributes, then use cost advantage to underprice comparable brands



Competitive Strength of a Best-Cost Provider Strategy

- A best-cost provider's **competitive advantage** comes from **matching** close rivals on key product attributes and **beating** them on price
- Success depends on having the skills and capabilities to **provide attractive performance** and **features at a lower cost than rivals**
- A best-cost producer can often **out-compete** both a low-cost provider and a differentiator when
 - Standardized features/attributes won't meet diverse needs of buyers
 - Many buyers are price and value sensitive



Risk of a Best-Cost Provider Strategy

- A **best-cost provider** may get **squeezed** between strategies of firms using **low-cost** and **differentiation** strategies
 - **Low-cost leaders** may be able to **siphon customers** away with a **lower price**
 - **High-end differentiators** may be able to **steal customers** away with **better product attributes**



Objective 5

Focused (or Market Niche) Strategies



Focus / Niche Strategies

- Involve concentrated attention on a narrow piece of the total market

Objective

Serve niche buyers better than rivals

Keys to Success

- Choose a market niche where buyers have distinctive preferences, special requirements, or unique needs
- Develop unique capabilities to serve needs of target buyer segment



Focus / Niche Strategies and Competitive Advantage

- Achieve lower costs than rivals in serving the segment --

A focused low-cost strategy

- Offer niche buyers something different from rivals --

A focused differentiation strategy



Summary

A company competing in a particular industry or market has a varied menu of strategy options for seeking and securing a competitive advantage. The first and foremost strategic choice is which of the five basic competitive strategies to employ----overall low-cost, broad differentiation, best-cost, focused low-cost, or focused differentiation.