Strategic Management for Competitive Advantage
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Lecture 13
Strategy Formulation - II

Welcome to the course Strategic Management for Competitive Advantage. We will be starting today Module 5, Strategy Formulation and Choices, so, we are talking about Strategy Formulation. This is the next Part (2) of the Strategy Formulation.

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The concepts that will be covered in today's lectures are Porter's generic competitive strategy, then we will talk about the Grand strategies - stability strategy, growth strategy, retrenchment strategy and the combination strategy. We will also discuss the SPACE Matrix.

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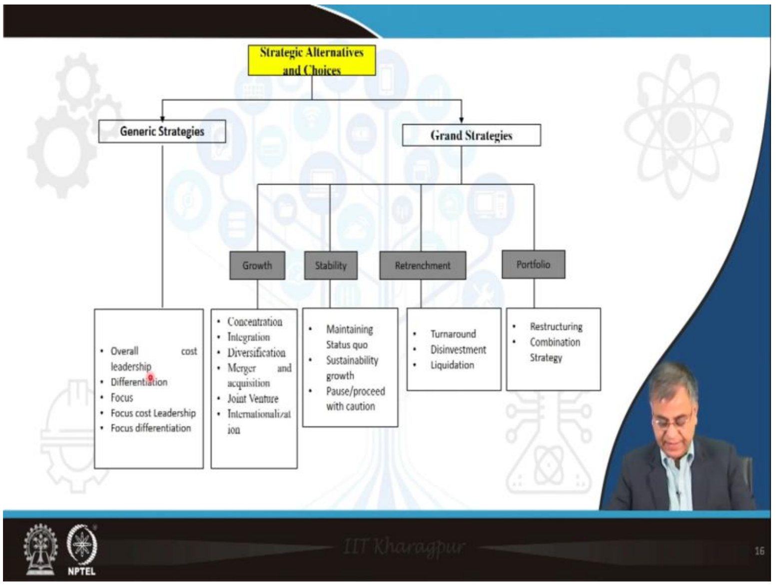

So, before we go, let's start with these strategic alternatives and choices. You may go through this table. These are the strategic alternatives available to any strategist. These alternatives can be divided into generic strategies and grand strategies. So, first, we will discuss the generic strategies.

These genetic strategies were developed by Michael Porter. We have discussed the five forces model, which analyzes the industry structure. Now, to get a competitive advantage, what are the strategies one should follow? So, he has developed these generic strategies.

These strategies are basically the overall cost leadership strategy, differentiation strategy, and focus strategy. Combinations of these include focus cost leadership and focus differentiation. We will discuss these generic strategies first then we will go for the grand strategy.

The grand strategy is the master business strategy or the corporate strategy of the organization. And it has growth strategy, stability strategy, retrenchment strategy and portfolio strategy. We will be going through each of these later on. First, we will tackle these generic strategies. What are these generic strategies developed by Michael Porter?

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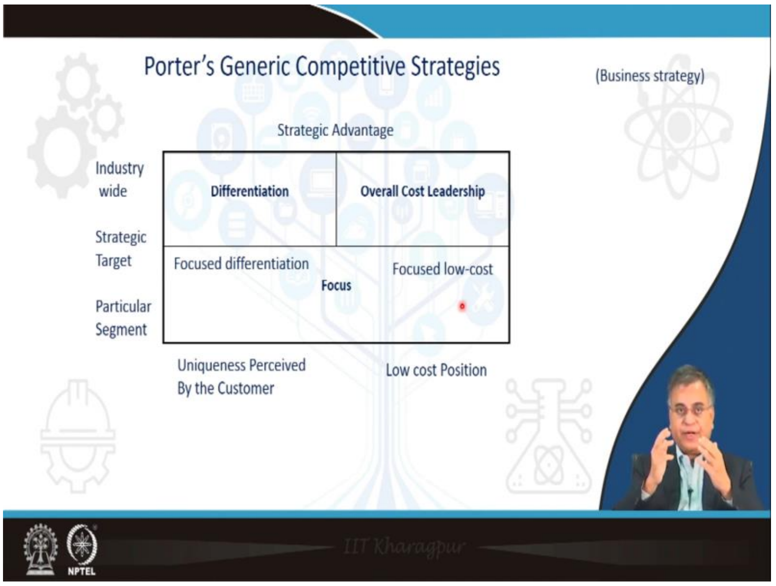

Generic strategies are basically business strategies. Say, if you follow this diagram, you will find that there is a strategic advantage, and these are the strategic targets. Targets may be industry-wide. It may be a particular segment. So, basically, there are three main strategies. Differentiation strategy, overall cost leadership strategy and focus strategy. Focus strategy is for a particular segment, and differentiation and overall cost leadership strategies are industry-wide.

Now, based on this, there are two more strategies you can derive, that is focused differentiation and focused low cost. Let us first discuss the first three, overall cost leadership, differentiation and focus. Then we will be talking about these two. What is the overall cost leadership strategy?

The cost leadership strategy is aimed at garnering or increasing the market share of the organization. For that, you go for the cost-effective way. So, that you reduce the cost of your product and it will have more customers and market share. And how can you gain this cost leadership strategy?

It can be applied through improving efficiency of the organizations in all spheres of the work. It is not only the efficiency of the operations or the production, it is the efficiency of the entire organization, efficiency of the supply chain management, efficiency of the marketing, efficiency of the HR, efficiency of the finance, the efficiency of the logistic, and engineering.

So, all-encompassing will give you the cost advantage. The unit cost may come down with all these efficiency improvement; if your organization is all-around efficient, and you get it. In fact, overall cost leadership also depends on the set of functions that culminates in experience curve effect that will give you the cost advantage.

Also, another way of getting the cost leadership, generally is through economies of scale; what are economies of scale? Economies of scale are the cost economics by increasing the output. Thus, as the production volume increases, the unit cost of production decreases. So, you get a cost advantage over your rival.

Say, for example, the cost leadership strategy is followed by Xiaomi (smartphone), McDonald's, Walmart, Maruti Suzuki, Southwest Airlines in the USA, and Nucor Steel in the USA, all these follow the cost leadership strategy to get bigger market share. Even Chinese companies follow the overall cost leadership strategy to capture the market.

So, what are the essential things you require for following the overall cost leadership? You require a centralized authority, centralized (close) supervision, strict control, and strict reporting. The reporting may be very often, maybe weekly, maybe bi-weekly. This is the overall cost leadership strategy to gain market share and lead the market.

Similarly, another strategy is called the differentiation strategy. What is a differentiation strategy? You achieve class leadership through some distinctive competence, which is perceived as unique by the customer. Customers think that the product is unique. This uniqueness may be in any form of product design feature, novel technology, uniqueness in customer services, or dealer network. As I have already mentioned, it can be that perceived uniqueness can be of any feature. So, you achieve class leadership from that.

For example, Harley Davidson, there are many motorcycles, but Harley Davidson is a differentiated product. Apple(smartphone) iPhone is a (follows) differentiation, whereas Samsung is the (follows) cost leadership strategy. Then, your Otis Elevator (follows) is a differentiation product; Bata shoes follow differentiation. So, the customers perceive, these products as unique. So, these are the differences. For this differentiation, what do you need?

You need to have decentralized decision-making. You empower the employees to take decisions at their work centers or wherever it is possible. So, you empower them(people) and delegate to them. So, it is decentralized decision-making, that is, generally followed for differentiation strategy.

The third strategy is the focus strategy. What is this? This focused strategy is - you concentrate on a particular buyer or a particular segment of a product line or a geographic market. For example, the Rolex watch, then Lamborghini car, Porsche car, the Mercedes, are the focus. There are some target buyer groups or segments of the product.

This focus can be focus differentiation or focus low cost, it can be both. Focus differentiation is Rolls Royce or the Rolex watch, the Lamborghini car, these are focus differentiation, Genteel liquid detergent that is for a particular segment of product, that is for woollen garments.

Then it may be focused low-cost. Like lifebuoy soap is a focused low cost whereas if you see Dove and other moisturized (Sandalwood) soap are also focused differentiation. Similarly, you will find the shampoo pouch, hair oil pouch, and toiletry soaps which are generally used by travelers.

So, it is a focused buyer group or the hotel industry. They use it to focus on some buyer groups or those bought by the marginal labourers who cannot buy a bottle of shampoo that will cost around 500 rupees. What do they buy? They buy a pouch for two rupees.

So, it is focused, say, low cost for them, either for those marginal labourers or the travelers. The toiletry soaps and all for the hotel industry, these are the focused low cost, focused high cost, differentiation. So, these are the five ways that are generic competitive strategies developed by Michael Porter.

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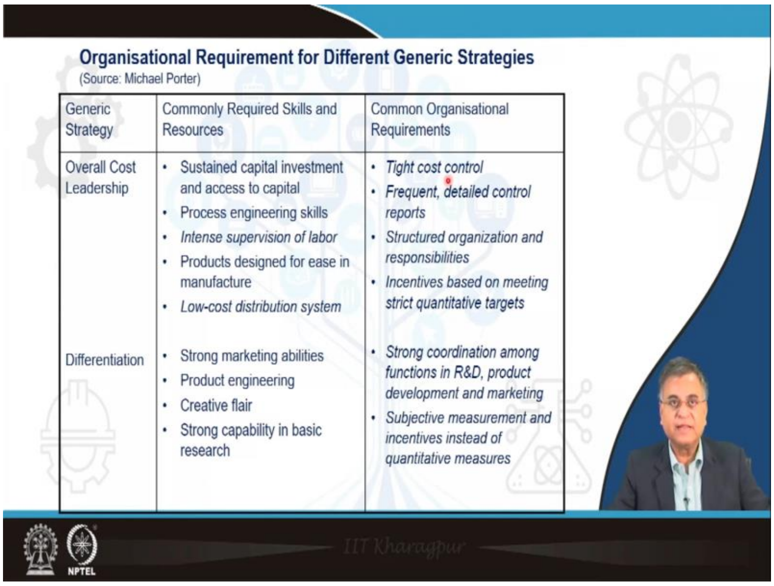

Further on it so, for these strategies; overall cost leadership, differentiation and focus, there are some organizational requirements. Say for these are, as I already mentioned, like overall cost leadership, what you require? You require tight cost control, close supervision, and frequent and detailed control reports so that the costs are in check.

Then your structured organization responsibilities and your incentives should be based strictly on meeting these targets. These are the organizational requirement for overall cost leadership. Whereas, for differentiation, you have to empower the employees to take decentralized decisions.

So, here for differentiation, you require faster decision-making because your competitors are developed something, and you have to counter that. For that, you need strong coordination among different functional groups, like R&D, product development, marketing and all. And you cannot also link it very directly with your incentive schemes. Because for new product development and all, it comes under the R&D, and it cannot be linked directly with your incentives like the overall cost leadership. There must be some difference in that.

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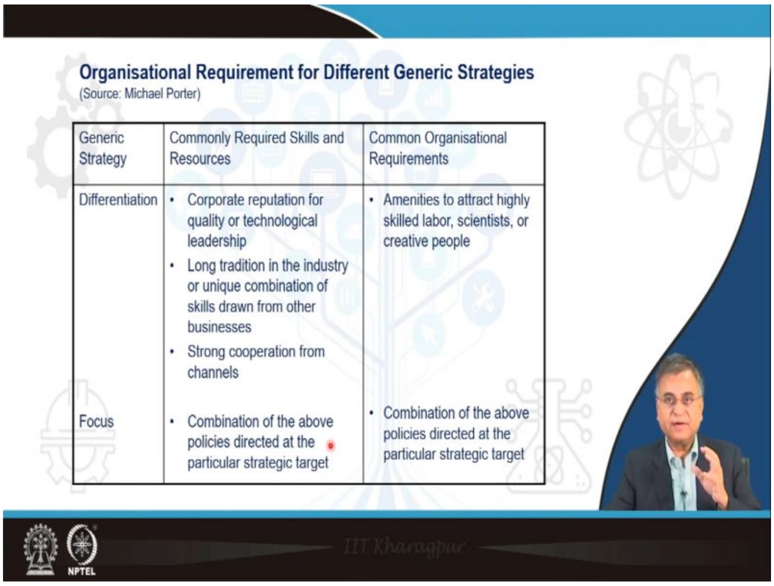

Then furthermore, here you require, for differentiation products, highly skilled labour, scientists and creative people because you are making your product an exclusively class leadership. So, you require that. and for the overall cost leadership, how do you get economies of scale?

You get economies of scale through the standard procedure with large volume - a plant size with large volume with repetitive work. You get more volume and more output. As a result, you attain economies of scale in overall cost leadership. Similarly, for focus leadership, you require the combinations of both policies. If it is focused leadership, you go for that cost leadership policy. If it is a focus differentiation you go ~~for combinations~~for combinations of that differentiation policies.

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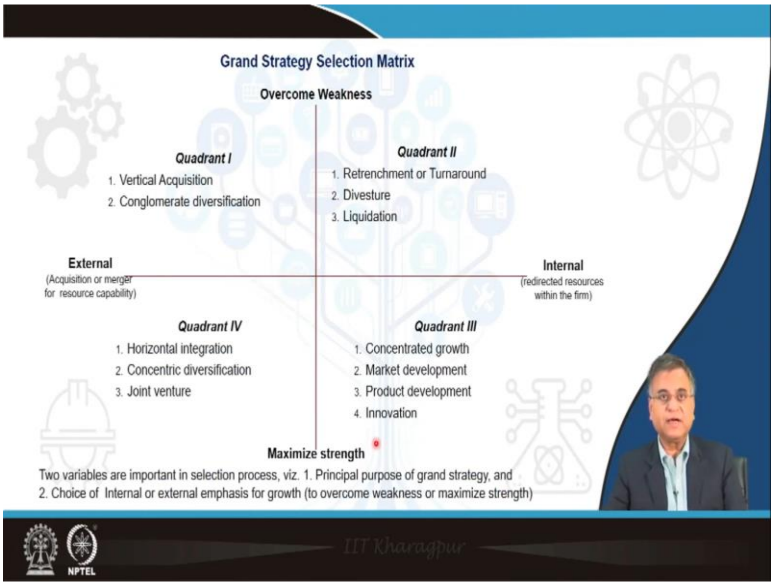

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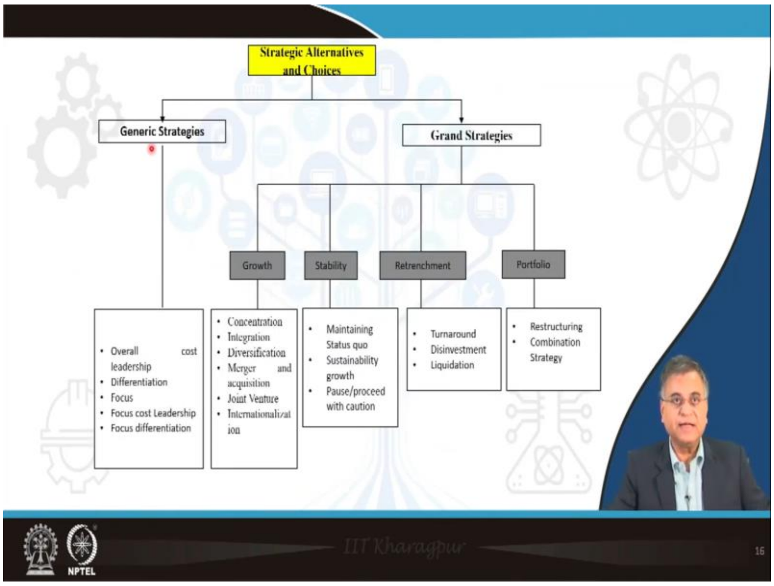

So, now this is all about the generic strategies, that we have discussed. These are the five generic strategies, three main generic strategies, and two of them are combinations of these. We will be coming to the Grand strategies. I have already mentioned that the grand strategies (the corporate strategy) give the directions on which you want to do your master business plan. So, as it is a growth strategy. What are the growth strategies?

Under the growth strategies, say, there are concentration strategy, integration strategy, diversification strategy, merger and acquisition strategy, joint venture strategy, and international strategies. So, we will be covering most of these in subsequent modules, what is integration, this may be vertical integration - backward integration and forward integration. Diversification; merger, or acquisition, will be discussed in future modules.

But, let us discuss what is concentration strategy. The concentration strategy is one of the most favourable and popular growth strategies followed by organizations. What is that? Concentration strategy is actually if an organization has a single line of business or a single line of product, then these concentration strategies work well there.

For example, say, Kellogg’s makes what? Kellogg’s makes those cornflakes and all. There is a single line of products and a single line of business using the single technology and having uniform single segments of the market.

So, there these are very useful, like KFC, McDonald's, Kellogg’s, Compac, and Coca-Cola, these are the single business using a similar single technology and single market. So, they do it, and here, by doing this single product, single business and all, they acquired huge experience, huge knowledge about the market and understand the behaviour of the consumer. They can analyze how the behaviour is changing or how the customers will behave and all, which gives them the competitive advantage and distinct competence they have developed over the years with that.

So now, if new entrants come to that industry will be very difficult for them to acquire that competence. That is why you will find these brands say, Disney, Walmart and all, these are very strong, and they have a steady profit and growth rate is not high.

These concentrations and all, growth rates are more or less stabilized, but that gives you the profit at a continuous and steadily. And also in concentration strategy, here it is applicable where the technological changes are not much.

Suppose, some industries like the electronics industries, their technological changes are very rapid there, this concentration strategy may not work. Where the technology is stabilized and does not require very high technology, there it works. Take the case of the paper industry, pulp and all, manufacturers of paper, technology of manufacturing of papers and all been very stable for the last hundred years. It has not changed. ITC (paper business) is very stable and gives you steady profit.

So, this concentration strategy works well under these circumstances. And here also, as I mentioned, the companies who are pursuing this single product or single business line they have acquired over the years its tremendous experience and distinctive competence, that is hard to beat by competitors. And others we will be discussing in the future module.

Similarly, what is the stability strategy? Stability strategy, as I already mentioned in the previous lecture, maintains the status quo like the same level of operations, the same level of activities organizations carries on, that is stability. Then sustainability, growth, Pause/proceed with caution. You look and take a decision. There may be then, it is the retrenchment strategy.

Retrenchment strategy is your shrinking of activity level. So, you are decreasing your operations, it may be the turnaround strategy. A turnaround strategy is an internal retrenchment strategy like your performance is coming down for successive years. So, what do you do? You make a strategy in which your sliding stops, and it starts making a profit. That is a turnaround strategy. It is done through an internal retrenchment strategy.

There is also external retrenchment strategy which is called the disinvestment strategy and liquidation strategy. Disinvestment is you have unprofitable units or unprofitable assets, and you are selling them off, or you are closing them down. And another was that liquidations mean you sell off the entire business, not the part and all. Disinvestment is a part of your assets or business, but in liquidation as a whole, you sell off, or you dispose of that line of business. That is the liquidation retrenchment strategy.

Now, the combination or there may be the portfolios. A portfolio strategy is to restructure the organization that is restructuring and a combination strategy, in a large organization follows not only one strategy at one time but a combination strategy.

Suppose, say, any big organization, Tata Motors or L&T. L&T may be following the growth strategy. Say Reliance Jio may be following a growth strategy. Then maybe the oil and gas may follow a stability strategy. They have many small organizations, that may be following the retrenchment strategy.

So, one organization may follow, at any one point in time, a combination of these strategies. Somewhere, they may follow a growth strategy, some segments, they may follow a stability strategy, and somewhere they want to follow the retrenchment strategy - they want to give up the unprofitable businesses.

So, it may be the portfolio, maybe the combination strategy. These are some of the strategic alternatives available to the strategist. Now, we will be talking about all this further in detail in future lectures. So, these are the grand strategies. So, we will be talking further. what is the grand strategy selection matrix?

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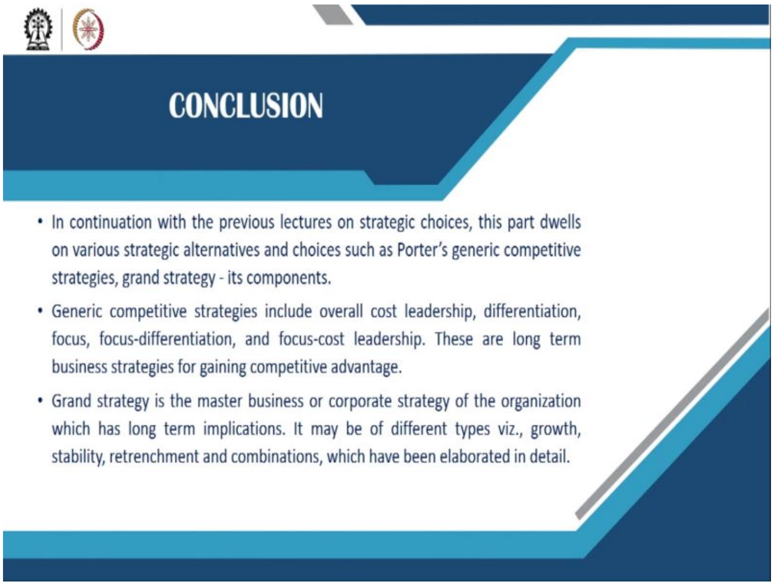

To summarize today's discussion, we have discussed in this class about various strategic alternatives and choices such as Porter's generic competitive strategies, grand strategy and its various components. Generic competitive strategies, we have seen include overall cost leadership strategy, differentiation strategy, focus strategy, focus differentiation and focus cost leadership. These are all long-term business strategies for gaining a competitive advantage.

Now, we also discussed that the grand strategy is the master business or the corporate strategy of an organization which has long-term implications. There may be different types of strategies like growth strategy, stability strategy, retrenchment strategies and combination strategies.

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Further, these are some of the references you can go through and enrich yourself. Thank you very much for attending.