

Business Analysis for Engineers
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Lecture -30
Model for Strategy, Ansoff Matrix

In our previous classes on strategy, the purpose of those classes were to first, give an understanding to the concept of strategy. Why, that there is a need, that organisations need, to have a strategy in place, so that, they have a value proposition, which is unique, and continues to remain unique for a long period of time. And this, in the strategic paradigm, we call as a sustainable competitive advantage. And, organisations would always want to have, a long-term sustainable competitive advantage.

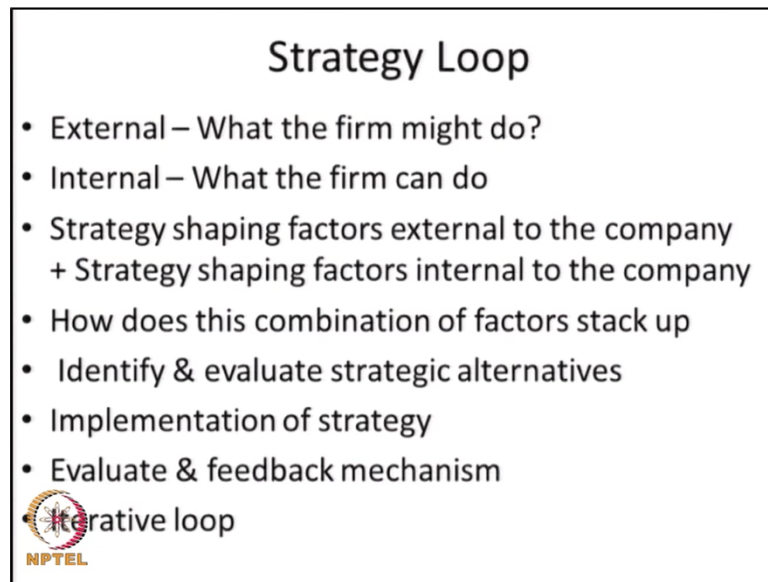
And, for this, from a very broad level we understood, what sustainable advantage is. What is the meaning of creating, a value proposition? And, some generic models, to understand, how these generic models are applicable, across industries. And hence, all organisations need to understand, the behaviour of some of these factors, in these generic models. And, some of the generic models that we saw, were the Porter's 5-Forces that we use for Industry Analysis, the Value Chain Analysis, the Porter's Diamond, then the BCG Matrix.

So, these are all some of the generic analysis framework, that many organisations use. And, in addition, we also saw the SWOT, and PEST Analysis, which was more an environmental analysis. Now, after having done all of this, organisations definitely need to have, some unique strategic direction. By strategic direction, I mean, a workable proposition, a framework, which provides a sense of direction. And, this framework, is more or less aligned with, the mission of the organisation.

And, all these generic models will provide, the underlying basis on which, these strategic frameworks have been designed. So, we need to understand that, it is not just these generic models, that are enough for an organisation, to put a strategic framework in place. There might be different strategies, for different organisations, for different points of time. But, one thing that ties, all of them together is that, they would be using all, or at least any one of these generic

models, when they make an attempt, to put a strategy in place. And, that is why, we do all this study.

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For example, an external analysis, an environmental scan, this gives an idea of, what the firm might do, considering the way in which, the external factors behave. Then, an internal analysis. And, for external analysis, you do the PEST framework. Or, you also do the Industry Study Analysis. Or, you may do the Porter's diamond, to understand how, a particular geography behaves. And, more specifically an internal analysis, like a SWOT, will give directions, that point to what the firm can do.

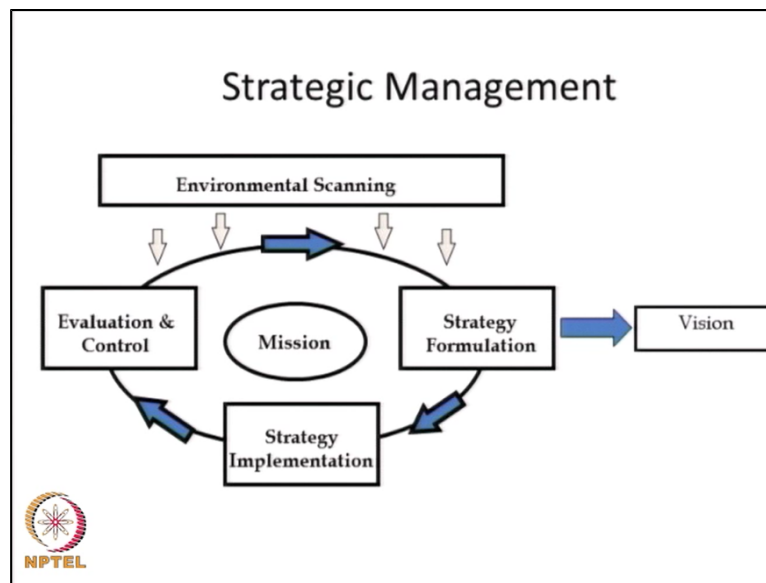
So, when all these external and internal analysis is done, there might be some factors, that shape the way in which, organisations have to design their strategy. Such strategy shaping factors, which emanate from such external or internal analysis, they combine together, and stack up either to positively influence, or also some factors that have some negative influence. A combination of these strategy shaping factors, from an external and an internal perspective, these form an ideal input, that is given to an organisation.

Using which, organisations can identify, various available strategic alternatives, strategic models. And then, based on how these factors stack up against each other, organisations evaluate and choose a particular strategic alternative. And, having chosen a particular strategy to be

implemented, then comes the implementation plan. And, once it is implemented, again this is a continuous process. We collect feedback, and again evaluate, whether things have happened in the way in which, organisations wanted them to happen.

And again, do this analysis to see whether, we need to choose an alternate strategy, then the existing one. And, this iterative loop continues. So, we need to understand that, in addition to the external and internal analysis, every organisation will make an attempt to have, a strategy per say for them, which is unique to the organisation, considering the way in which, these external and internal factors influence, the operations of an organisation.

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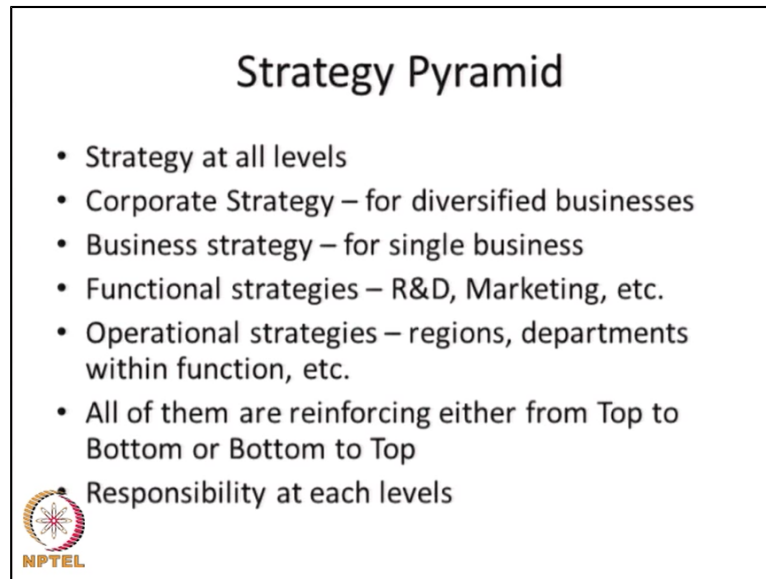


To put it short and simple, an environmental scanning, both internal as well as external, provides those critical inputs. Based on which, a particular strategy is formulated. Chosen from amongst various strategic options, that are available. And, after a careful evaluation, a particular strategy is chosen. And then, implemented. And, the result of the implementation, is evaluated. And, this feedback loop will either prone down, or improve the strategy in place, or probably bring in a new strategy, from the available options.

And, one thing that the organisation should not lose focus is that, any strategy that it chooses to implement, it should be in alignment with the mission of the organisation. And, only then, there will be an organisational buy in, to the entire strategic formulation. And, all of this will push the

organisation in the direction, which the overall vision of the organisation, has set for itself. Now, strategy is not something that, necessarily has to exist, just at the corporate leadership level. There is strategy at all levels, in any organisation.

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And typically, a corporate strategy will be, a strategy for corporations or conglomerates, which have diversified businesses in place. So, you might have a strategic model, that uniquely is applicable, for corporations and conglomerates. A business strategy for, a strategic business unit, within a corporation. Or, you might also have a functional strategy, which is applicable to some functional units, within an organisation. Like for example, it can be a research and development unit, or it could be a marketing strategy, it could be a finance strategy.

So, these are all strategies, that are applicable for, individual functions within an organisation. You might also have operational strategies, which could be based on, the regions in which they are operating, or the departments within a function. So, these are all operational strategies. But, all of these strategies, whether at the operational level, or at the corporate level, all of them will be reinforcing, either from the corporate to the operational unit, or from operational unit to the corporate level, either from top to bottom, or bottom to top, all of them have to be positively reinforcing.


Only, if they are positively reinforcing, will that be a perfect alignment, with the organisation's

mission and vision. And, as a result of which, if we are able to identify strategy at different levels, it is also easy to see, how these strategies are implemented. As a result of which, we can measure the responsibility, of implementation of these strategies, at each of these levels. Now, the very fundamental unit, that ensures, that a strategy is implemented, comes from a resource perspective.

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Firm Resources

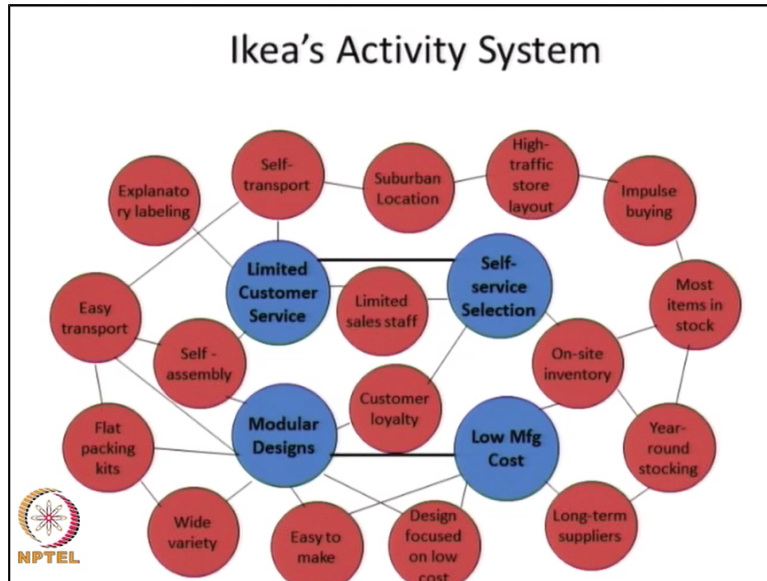
- Firm resources – Inputs to a firm's process
- Use of resources create value
- Resources – Tangible or Intangible
 - Tangible – Financial, Physical, Human Resources, Organisational
 - Intangible – Technological, innovation, brand
- Resource synergy – internal & external, IKEA



We need to ensure that, organisations or firms have resources, that are adequately available, to make sure that, the strategy is implemented. And, these resources are basically inputs, to a firm's process. And, any resource that creates value in the process, can be considered to be a firm's resources. So, it could be either a tangible resource, or an intangible resource. A tangible resource in the form of, financial, or capital, or physical, or human resource. Or an organisational resource itself.

Or, could be an intangible resource, which could be technological in nature. Or, the innovation DNA of an organisation. Or, the brand itself, could be a very strong intangible resource for the firm. But, we must ensure, that there is a coherent synergy, amongst all these resources, tangible or intangible. And, this resources can also be internal, as well as external. Resources of a supplier, could also be critical to a firm.

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If you take the example of IKEA, a world-renowned furniture retailer, there are a number of resources that are linked, into the value chain of IKEA. And, this linkage of all these resources, and the coherent synergy that exist amongst all these resources, ensures that, IKEA is known to be a low-cost manufacturing of modular furniture, with a differentiation from a customer service point of view. I do not want to elaborate on, the value proposition of IKEA.

But, it is enough for you to understand, for the purpose of this session, that it is the synergy that exists amongst various resources, resources tangible or intangible within an organisation, resources tangible or intangible outside the organisation. And, they combine the synergy of all these resources, is primarily responsible for IKEA, to put in place, a value proposition. As a result of which, it feels, that it provides the organisation, a long-term sustainable competitive advantage. Now, there are a number of strategic options available.

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Strategy Options

- Porter's Generic Strategies
- Hammel & Prahalad's Core Competency
- Ansoff's Product/Market Grid
- Blue Ocean Strategy



But, I will be dealing with four popular options, namely Michael Porter's Generic Strategies, Core Competency of Hammel and Prahalad. There is also another Product Market Grid, called the Ansoff's Product Market Matrix. And, finally, the Blue Ocean Strategy. These are the four broad strategic options, models, that I will be elaborating, for the purpose of this course.

At the same time, we must be aware that, there are a number of other strategic options. Or, we can also create a new strategic option, if we feel that, we are creating something new, that is not existing. But, I will be spending time on these four strategic models, which I think is popular amongst management professionals. The first strategic model is the Ansoff Matrix.

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Ansoff Matrix

- First published in Harvard Business Review in 1957
- Presents four growth options matching products & markets as the two variables
- Sets the clear direction & goals for the future



And, this gain popularity, when it was published in the Harvard Business Review, in 1957. The fundamental to this model is that, it presents four options for an organisation. And, these four options, come from a matching of two variables namely, the products, and the markets. And, any of these four options that are chosen, sets the clear direction and goals for the organisation, to move forward. Now, let us see how, this four options present themselves.

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Ansoff Product – Market Grid

	Existing Products	New Products
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification



Now, this is a match between, products, and markets. Subdividing them, a match between existing products new products, and existing markets and new markets. So, if the map is between existing products and existing markets, then we call it a market penetration strategy. Or, if it is between new products and existing markets, it is a product development strategy.

Likewise, existing products and new markets, it is a market development strategy. And, between new products and new markets, a diversification strategy. And, each of them, can be chosen by organisation, based on what they think is critical, for their long-term future. Now, the first thing is the market penetration, which is existing products and existing markets.

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Ansoff Strategic Options

- **Market Penetration** – Changing incidental clients to regular or regular to heavy.
Examples – volume discounts, loyalty cards, CRM, frequent flier programmes, etc. –
Example-Cadbury Chocolates as gifts

- **Market Development** – Introducing existing products in foreign markets or new brand names in a market/segment
Examples – Tetrapack, Sachet oil, Export,



Now, firms would like to embark on this option. And, firms which use this, will ensure, that they have the resources in place, that change a chance client or an incidental customer, to a regular customer. Or, an existing client, or a regular customer, to heavy user customer. And, there are different ways, of doing this. So, once you decide, that I am going to just use my existing products, for an existing market, then it means that you have chosen, the market penetration strategy.

Now, having chosen that, how do I do that. So, a firm's resources must be tuned, towards a market penetration strategy. For example, the firm's resources must be towards, having some promotional and marketing campaigns, like volume discounts, or loyalty cards, or frequent flyer programs in the airline industry, or improved customer relationship management. Now, the reason that these are all the alternative options that are available, is because, you have chosen market penetration to be a strategic option.

One fine example could be, the Cadbury chocolates. Now, you see recently that, it is not just a chocolate that is consumed, as a sweet delicacy, for internal domestic use. It is increasing its market share, by changing the positioning itself, as gifts. Now, you see Cadbury chocolates in gift packs, which could be used as, festival gifts, or birthday gifts, or teacher's day gifts, whatever the case may be. So, no longer, it is being perceived only as a domestic, or only as a sweet, that is consumed by an individual.

Now, the market penetration strategy is ensuring, that this new positioning, is increasing the market share, within the same market, using the same product. The second option is the market development option. Market development is about, existing products in new markets. Now, we need to introduce an existing product, in new markets. It could be a foreign market. Or, probably, in a new brand, in a new market segment. That is also a market development.

Some of the popular examples could be, the oil in sachet. The sachet oil, for a new market segment, for a frequent traveller. Or, a tetra pack. Or, if it is going to be a new geography, the export markets. Or, Apple. The same product, in new markets. Apple launch in the US, is available in India as well. New markets, same products. So, organisations that would like to use market development as a strategic option, will ensure that their resources are optimally used, to sell these existing products in new markets. The third option that is available is, product development.

Ansoff Strategic Options

- Product development – own new or other new products to existing clients. Can be accessories or add ons or completely new products

Examples – McDonald's Salad, Banks selling complimentary services like insurance, credit cards, etc.

- Diversification – Horizontal (new product, current market), Vertical (Moving back or forward in value chain), Concentric (new product related to current product in new market) or Conglomerate (new product new market) - Apple



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Product development is, new products in existing markets. Which means, you can either on your own, create new products, or add new products from others, others new products to existing clients. It is sold through you. So, it could be an accessory, or add-ons, or just completely new products. Popular examples could be, the McDonald's salad. It is a fast food chain. But then, a new product, in the form of a salad, which is something new, to the culture of McDonald's. Or, you might see now, banks selling complimentary services like insurance and credit cards.

This again, it is a new product, but to the same market. A salad, to the same market in McDonald's. An insurance policy, to the existing customers of a bank. A credit card, to the existing customers of a bank. So, it is new products for the same market, for which, resources have to be aligned to. And, the last is diversification. And, this diversification can happen, in various directions. In horizontal, which could be a new product, in a current market. Or, a vertical diversification, either backwards or forward in the value chain.

So, you could either move forward towards the customer direction, or backward towards the vendor's direction. Or, could be a concentric diversification, which could be a new product, which is related to a current product, in a new market. Or, it could be a conglomerate, which is the classic diversification, which is entirely a new product, in a new market. The Apple company, is a very good example.

It started with, just laptops. And, you see the way in which, it has diversified into different product ranges. So, the choice of choosing, a particular position in this product market grid, determines the way in which, the resources within an organisation will be used. And, the way in which organisations will change, their implementation part, so that an identity is not lost. And, the Ansoff business matrix can also be compared with, an individual, I call it the personal matrix.

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Ansoff Business vs Personal Matrix

- Running a business is similar to personal career choices
- Business can maintain status quo just as individuals can stay wherever they are – Least risky
- Business growth akin to career growth – new roles in same organisation, same role in new organisation or different role in different industry
- Differing risks at each levels
- Examples – video <http://www.marketing-equity.com/2011/09/few-examples-of-ansoff-matrix.html>



Because, running a business is similar to taking, personal career decisions, personal career choices. Businesses can choose, to just maintain status quo, just as individuals can stay, wherever they are. That is the least, risky proposition. No risk. But, when you need to grow, you need to take little risk. And, businesses, need to grow. So, would individuals also need career growth. So, business growth is synonymous with career growth.

And, in a way, you take for example, a career growth, it could be a new role in the same organisation itself. Or, a same role in a new organisation, or in a different industry altogether. You could be a marketing expert, in an organisation. And, then finally, at one point of time, decide to become an operational expert, or a strategy expert, in the same organisation.

Or, you could be the same marketing expert, in a different industry. Or, you could be a strategy expert, in a different industry altogether. So, you will be able to appreciate, this difference. So, as you take different decisions, there are different risks, different ways in which you would change your behaviour. Because, each of them will have different ways in which, you as an individual will have to change yourself, to meet the new needs of this new role.

Just as businesses, whether it is product development, or market development, or diversification, or market penetration, they have to use their resources effectively based on, which position that

they take in the grid. So, each of this will definitely have, differing risks at different levels. And, to understand this Ansoff Matrix better, I will also present a small video, that gives you examples of four organisations, four products, that fit in each one of this grid, so that you understand this better.

But, the broad understanding that you have to have in this Ansoff business matrix is that, organisations choose their strategy from this model, either to be a market penetration, one, or a market development, or product development, or diversification, based on, what the mission of the organisation is, what the vision of the organisation is. So, when you have some grid of this type in place, it ensures that you do not lose direction, when it comes to implementation of the strategy. Just a quick snapshot.

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<p>Market Development Selling more of the same things to different people</p> <ul style="list-style-type: none"> • Target different geographical markets at home or abroad • Use different sales channels, such as online or direct sales if you are currently selling through the trade • Target different groups of people, perhaps different age groups, genders or demographic profiles from your normal customers. 	<p>Diversification This strategy is risky. Little scope for using existing expertise or achieving economies of scale, because you are trying to sell completely different products or services to different customers</p> <p>Its main advantage is that, should one business suffer from adverse circumstances, the other is unlikely to be affected.</p>
<p>Market Penetration Sell more of the same things to the same people.</p> <ul style="list-style-type: none"> • Advertise, to encourage more people within your existing market • Introduce a loyalty scheme • Launch price or other special offer promotions • Increase your sales force activities, or acquire a competitor company (in mature markets) 	<p>Product Development Selling more things to the same people.</p> <ul style="list-style-type: none"> • Extend your product by producing different variants, or packaging existing products in new ways • Develop related products or services • In a service industry, increase your time to market, customer service levels, or quality.

Market penetration, as I said before, it is selling more of the same things, to the same market. The same product, to the same market. And this, you could either do by advertising aggressively, to encourage more people within the existing market, to buy more of your products. Increase promotional activities like, the loyalty schemes. Or, very simply you can also buy a competitor company, assuming that the industry becomes matured, over a period of time.

Product development. Selling more things, to the same people. Which could be just done through, product extension, or through different packaging, or develop related products, or

complimentary services. And, market development is selling more of the same thing, to different people, to different markets, new market segments, in different geographies. So, you could target different geographical markets, or use different distribution channels, to target different user segments.


Online sales, for those who are tech savvy. That could be, a new market segment itself. Because, you are going to sell the same thing, but through a new distribution channel. And, lastly is diversification. This is a little risky, not because it is going to consume, a lot of resources. Because, it does not use the existing expertise. Because, diversification is about new product, and new market, for which very little of existing expertise comes handy.

Because, you are trying to sell something, that is completely new, to a set of completely new customers. But, the main advantage is that, corporations that have this diversification strategy in place, will have a fall back option. During, adverse situations where, one business unit fails, there is likelihood that, the other business unit does well, so that as a corporate entity, things are not that severe. So, this just presents you a snapshot, of the Ansoff product market grid. The next strategic model is, Michael Porter's Generic Strategies.

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Porter's Generic Strategies

- Primary determinant of a firm's profitability - Attractiveness of the industry
- Secondary determinant is its position within that industry.
- Below-average profitability industry - Optimally positioning can generate superior returns.



Now, this again is a very popular model, that many of the organisations use. We all know that, the primary determinant of a firm's profitability, as I said before, depends on the structural


attractiveness of the industry. And this, we measured by way of this, Michael Porter's 5-Forces industry. That becomes the primary determinant, how structurally attractive this industry is. You also have a secondary determinant, which is the firm's position, within the industry.

So, a firm's position within an industry, becomes a secondary determinant. And, assume that the industry is below average profitability industry. We need to optimally positioned the firm, so that you gain, superior returns. So, only if you are able to position a firm optimally, will you be able to gain, superior returns. And this you can do, following three different generic strategies, that Michael Porter's suggest.

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3 Generic Strategies

- Firm's positions itself by leveraging its strengths
- Two sources of strengths – Cost & Differentiation
- Scope of strength – Broad or Narrow
- Strength + Scope = 3 Generic Strategies
- These strategies are applied at the business unit level
- They are called generic strategies because they are not firm or industry dependent – each industry / firm has its own sources of strength

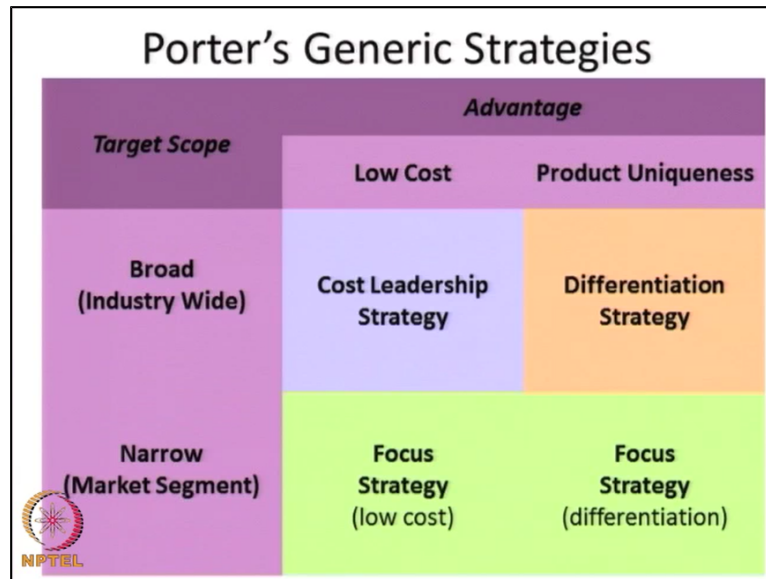


Now, every firm positions itself, as much as possible, by leveraging the strengths that the firm has. And, Porter's Generic Strategies relies on the fundamental fact that, broadly there are two sources of strengths. Either, it comes from cost, or differentiation. And, these two sources of strength, can extend over a narrow scope, or a broad scope. So, it is the strength plus scope, that gives these three generic strategies, which can be applied at, each of the business unit level. And, these are generic because, it is not specific to a particular industry, or a particular firm, or a particular business unit.

You can have a corporation, where each business unit can have, anyone of these three generic strategies. So, it is not specific, to a particular corporation. Or, within business units, you would

have different products, which will have, three of these generic strategies, amongst themselves. But, that must not be confused as, a particular business unit, having three different generic strategies, about which I will be talking later. The three generic strategies that Michael Porter identifies, is fundamentally from the two strengths namely, cost and differentiation.

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The ability to do something low cost, the ability to provide a unique value proposition in the product or service, that is being delivered. And thirdly, focus. The ability to concentrate within a limited niche market segment, a narrow market segment. And, by focusing within this narrow market segment, you can either choose to be a low-cost, or you could also provide differentiation within that focused market. So, the generic strategy boils down to, cost, differentiation, and focus. And, in focus, low-cost or differentiation. So, this is the Porter's Generic Strategies. The first thing is the, cost leadership strategy, namely the low-cost.

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Cost Leadership Strategy

- Low cost producer in an industry for a given level of quality
- Firm sells its products either at average industry prices to earn a profit higher than that of rivals
- Firms also sell below the average industry prices to gain market share
- Price war - Can maintain profitability while the competition suffers losses.
- Without price war – industry matures and prices decline, low cost producers will remain profitable for a longer period of time
- The cost leadership strategy usually targets a broad market – volume driven

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Which means that, an organisation, that like to have a cost leadership strategy, will ensure that, it is the low-cost producer, in that industry, for that level of quality. Which means, quality is not compromised. But, there is something inherent in the firm, that ensures that, it is the low-cost producer. Which means, that the firm is capable of selling its product, either at average industry prices, to earn a profit higher than that of rivals.


Or, it is capable of selling at, below average industry prices, to gain market share. And, this you can do, only if you are a low-cost producer. And, what is the advantage of that? During times of price war, you can still maintain profitability of its losses, because you are already the low-cost producer. Or, assume that, there is no price war, that the industry has matured, or there is a price decline itself, still low-cost producers will remain profitable, for a relatively longer period of time.

And, usually a low-cost strategy, targets a broad market because, it needs to be a volume driven. Usually, though in focus, you still have low-cost strategy, by enlarge low-cost strategy, targets a broad market. So, organisations can choose, to take the low-cost option, as a strategic option. And, having chosen that, how do they acquire those cost advantages.

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How Cost Advantages?

- Some of the ways that firms acquire cost advantages are by:
 - Improving process efficiencies
 - Gaining unique access to a large source of lower cost materials
 - Making optimal outsourcing and vertical integration decisions
 - Avoiding some costs altogether
- If competing firms are unable to lower costs – sustainable competitive advantage based on cost leadership.



They can do that by either, improving the internal process efficiencies, improve processes. That is where I said the resources, that are used within an organisation, are used optimally and


effectively to ensure that, there are process efficiencies, which dry down costs. Or, gain access to a large source of low-cost materials. Strategic relationship with vendors. To ensure that they are able to get, raw material at competitive prices. Or, a decision to simply optimally outsource, or vertically integrate. Or, awarding some costs, altogether.

Like, for example, McDonald's. It makes its menu very simple, so that it does not have to hire, some of the best chefs, in its fast food chain. So, it avoids the costs altogether. Now, as a result of all of this, if competing firms are unable to lower costs, then there is a competitive advantage, which is based on cost leadership. So, when firms decide to use cost leadership as a strategic option, they tend to do any one of these to ensure that, their costs of providing a comparable product or service, is lower than competition. Now, how do I build those strengths.

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Internal Cost Leadership Strengths

- Access to the capital required to make a significant investment in production assets; this investment represents a barrier to entry that many firms may not overcome – Brand in equity / debt market
- Skill in designing products for efficient manufacturing, for example, having a small component count to shorten the assembly process – Japanese Auto manufacturing
- High level of expertise in process – Low cost airlines
- Efficient distribution channels – Dell, Coke, Wal-Mart



Some of them, that are inherent. Let us say, access to capital is, definitely an important resource. Because, you need investment, to create assets. And, if you have favourable access to capital markets, that by itself, could be a barrier for entry, that many firms will find it very difficult to overcome. And, access to capital at competitive price by itself, will reduce cost. That is why, we can understand how important brand is, especially when you are raising capital in the equity market, or the debt market.

Or, organisations will have specific skills, in designing products. And, this example, you can see

in the manufacturing, the inventory control mechanisms in the manufacturing industry, especially the Japanese auto manufacturing, this has tremendously reduced the costs. And, advantage of these Japanese firms lies, in the specific skill that they have, to ensure that, the inventory that it maintains, is very optimal. As a result of which, the overall cost structure goes down.


Or, some organisations build cost leadership strategy, by having high level of expertise, in the process that they are providing. You can see this, in the low-cost airlines. Or, some drive down costs, because of an efficient distribution channel. Dell is an example. Coke, or Walmart. So, these are organisations, which have an efficient distribution channel. As a result of which, they are able to drive down cost. Remember, all of this is done, with a view to reduce, the cost of delivering a product or a service.

So, it is this understanding, this direction, that we are a low-cost, and hence all our resources need to be utilised, to ensure that whatever it does, it is able to reduce some cost. If it was X, it needs to provide some Delta X. So, that by doing this, the cost reduces, X minus Delta X. And, you have number of examples of firms, there are symbolic of cost leadership.

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Cost Leadership Examples

- Deccan, Southwest Airlines
- McDonalds
- Walmart, TESCO
- India – Research Outsourcing – Unilever, Motorola, GE. etc.
- Indian Software Companies – low cost development



And, classic example, is in the airline industry. The Deccan Airlines, here. Or, the Southwest, about which I talked about, in my introductory classes. Or, McDonald's. Walmart, Tesco, in their multi-brand retail. Or, research outsourcing itself, is a cost leadership example. Firms like

Unilever, or GE, they outsource their research capabilities in India, not only because of the intellectual strength that the country has, but also because it is cost competitive.

And, it is the same cost leadership example, that explains the success of Indian software companies. Because, we are capable of software development, at competitive price. So, these are some popular examples, of how organisations use cost leadership, as a strategic decision. And, build strengths within an organisation, that always tries to reduce costs.

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Cost Leadership Limitations

- Sustainable - other firms may be able to lower their costs as well
- Technology upgradation – competition can leapfrog production capabilities, thus eliminating the competitive advantage
- Firms following a focus strategy and targeting various narrow markets may be able to achieve an even lower cost within their segments and as a group gain significant market share



Having said that, there is also some limitations, for organisations that have cost leadership, as their singular focus. Whether, it is sustainable. It may, or it may not be. Other firms may also be able to lower their cost as well. Because, best practices are always available. And, as long as those best practices, those low-cost strategies, are not imitable, then it is sustainable, over a long period of time. But, if it is not, then other firms may be able to low their costs, as well.


Or, there might be a disruption in technology, where there can be some leapfrogging activities, that can bypass some of the activities, which hitherto firms were doing cost effectively, then it no longer can be a sustainable competitive advantage. Because, you have a technology substitution, that leapfrogs a set of activities. Or, on the other hands, some firms following a focused strategy, and might be targeting various narrow markets, may also have the capabilities of achieving, lower cost within their segments.

And, as a group within themselves, they can gain significant market share. So, you can still be a cost leader. You can be a cost leader, but be aware of the fact that, there are limitations. And, one of the major things that, you will have to look out for is that, competition can also be able to lower their costs, as long as it is imitable, or doable. So, the first thing that we saw was, the cost leadership strategy. This second strategic option that is available is, differentiation strategy.

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Differentiation Strategy

- Development of a product or service offering unique attributes valued by customers to be better than or different from the products of the competition
- Value added by the uniqueness – Premium price for incremental value
- Higher price will cover the extra costs incurred in offering the unique value
- Because of uniqueness, if suppliers increase prices the firm may be able to pass to its customers who cannot find substitute products easily



As I said before, differentiation strategy is again applicable for a broad scope, just as low-cost is also applicable for a broad market scope. So, the target scope is, very broad. The need to differentiate a product or a service, arises from the fact, that there is always a group of customers, who would be willing to appreciate the differentiation, that the product or service is capable of providing. As long as, there is a presence of a sizeable share of such customers, there is incentive for organisations to differentiate.

There is no point in differentiating a product or a service, when there is only a handful of customers, who appreciate this differentiation. So, next class, I will be talking about, the other two strategic options namely, the differentiation, and the focus. Cost leadership ensures that, organisations inherently build a mechanism, where the resources are optimally used to ensure, that whatever they are doing, either as a process, as a design, or as a selling and distribution, whatever value chain activity that happens in an organisation, the fundamental requirement is

that, it has to be cost effective.

And, if we are able to provide that cost competitiveness, across all the value chains, the aggregate of all these Delta X's, will provide a unique competitive advantage, from a cost perspective, that will help organisations, to either command a premium, or at times of price war, or stages where the industry is matured, they can still be able to reduce the prices, when competition cannot do that. Because, they are not low-cost. So, this low-cost has this advantage. And, at the same time, some limitations, which organisations have to be aware of. So, next class, we will talk about, differentiation and focus. Thank you.