4 Fundamental Formats of Competitive Strategies

1. Differentiation and Cost Leadership

▼Porter, M. (1980), *Competitive Strategy*

: Fundamental formats of competitive strategies

◆Sources of competitive advantage/strategic target

◆Cost leadership

Offer standard products at low cost/price

◆Differentiation strategy

Products of high value, price premium

◆Focus strategy

Specific segment, market niche: Differentiated products or low cost

		Sources of Competitive Advantage	
		Lower Cost	Differentiation
Range of Strategic Target	Broad Target	Cost-Leadership Strategy	Differentiation Strategy
	Narrow Target	Focus Strategy Cost Focus	Differentiation Focus

Porter, M. (1980), *Competitive Strategy*

1.1 Sources of Competitive Advantage: Low Cost

◆To offer goods/services at lower costs than ones of competitors'

◆While the quality buyers receive is the same, its cost requirement is lower than that of competitors'.

Identical product at identical price → High margin

Identical product at lower price → High share

※Note that when a firm employs a cost-leadership strategy, generally it appeals to consumers with a low price.

1.2 Sources of Competitive Advantage: Differentiation

◆To offer goods/services in a unique method which is different from that of competitors'

◆By providing a greater value as compared to competitors, a premium price can be asked for.

: High value product at high price → High margin

◆High value product at the same price → High share

◆Points of differentiation are:

-Function of goods/services per se

Quality, design

- Auxiliary services

After-sale service, delivery time/delivery method,

Payment condition, convenience in purchasing

Product's social image

1.3 Stuck in the Middle

◆Trade-off between differentiation and low cost

◆Choice of emphasis

: To choose one under a fixed condition.

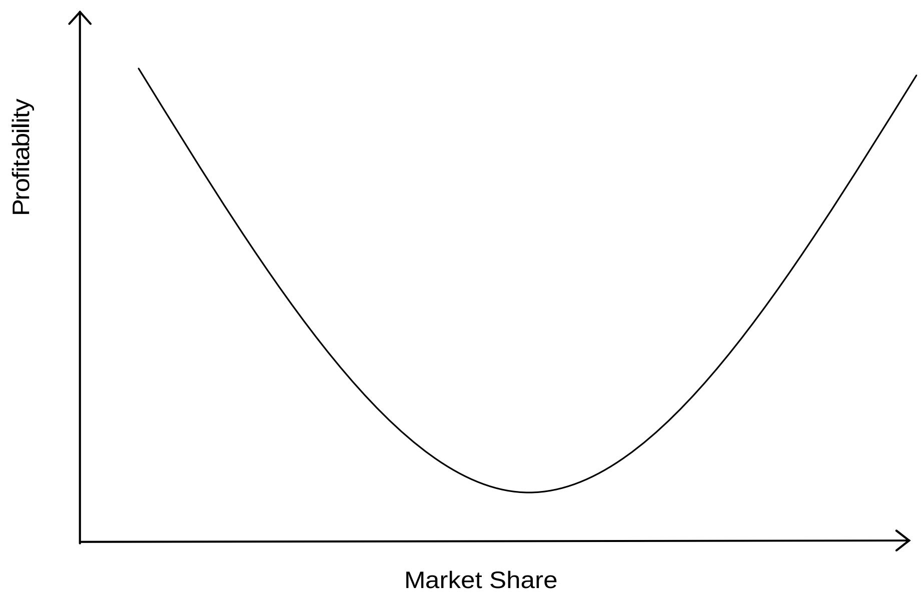
◆Forces originating the change

- Technological innovation

Technology of high-mix low-volume production

-Industrial life cycle and competitive rule

Price→Differentiation/segmentation



2. Significance of Market Share

2.1 Merit of Share Expansion

◆Bargaining power with distributors (negotiation for price reduction)

◆"Revelation effect" to customers ··· Two-way information

-With the largest number of customers, it's easy to obtain broad customer information.

-Distributing information to the customer side

-Taking in information of the customer side

amazon.com

e-bay

◆Merit on cost

Economy of scale

Experience effect

2.2 Demerit of Share Expansion

-If a share increases above certain level, some demerits arise: As the share expansion requires cost, the larger the share becomes, the higher its cost grows. Profit has to be sacrificed. In the wake of one's high exposure, its adversary goes up as well. (Anti-Giants)

◆Diminishing returns, diseconomy of scale (Inefficient site location)

◆Technological changeover or generation transition: With some technological innovation, existing large-scale production facilities can become obsolete, and the buildup of experience can go to waste. (Particular attention is necessary in a period of technological generation transition such as the changeover from vacuum bulbs to transistors)

◆Obsolescence of facilities and experience

◆"Shared experience"—Sharing of relevant markets

-Canon: Copy machines and laser printers

To look at the economy of scale and experience effect, one has to be careful about the "shared experience." Copy machines and laser printers share common parts to a significant degree. In order to attain an equal position with Canon in terms of cost, one has to manufacture not only the same quantity of laser printers, but also the same quantity of copy machines, as Canon does.

3. Strategy and Profitability (PIMS Research)

▼Buzzell, R.D. and Gale, B.T. (1987), *The PIMS principles: Linking strategy to performance*. The Free Press

-Having collected about 3000 cases regarding relations between strategies and profitability since 1972, the authors found a number of "principles" of business strategies.

◆Principles of PIMS

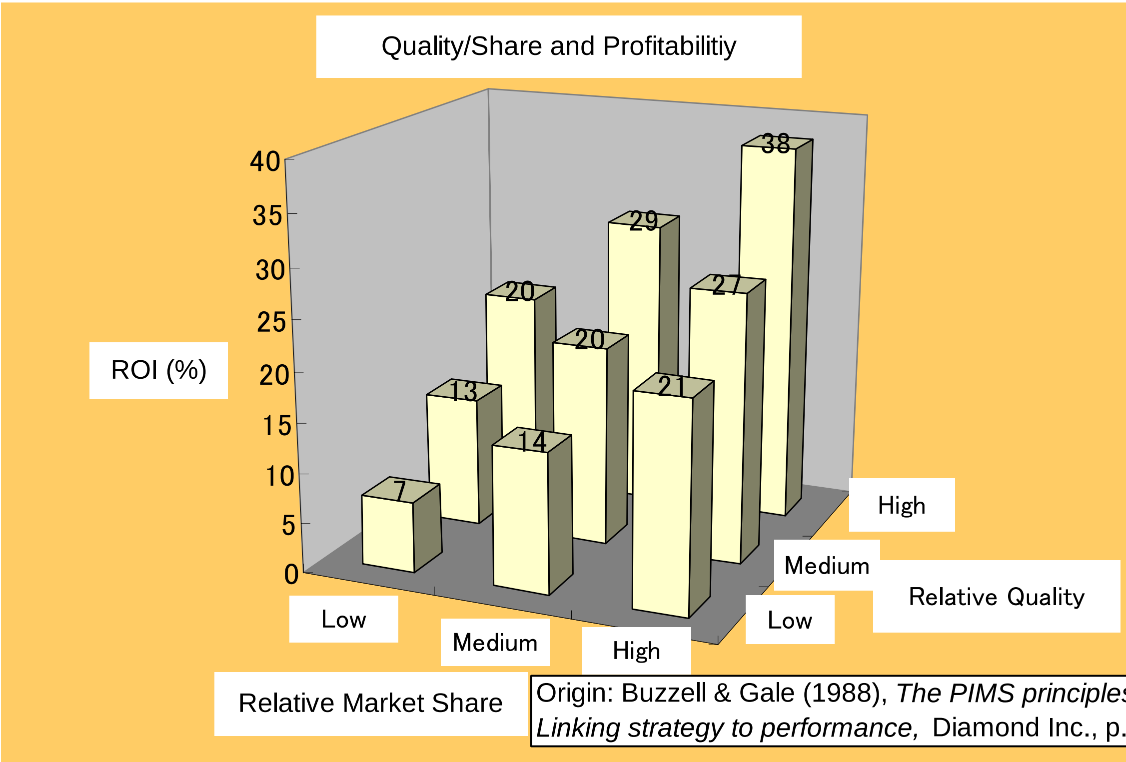
-Quality of goods/services of a firm that is superior to the one of other firms' contributes to its performance.

・In a short term, products with a superior quality ingenerate about 5-6% price premium, to contribute to an increase in profit.

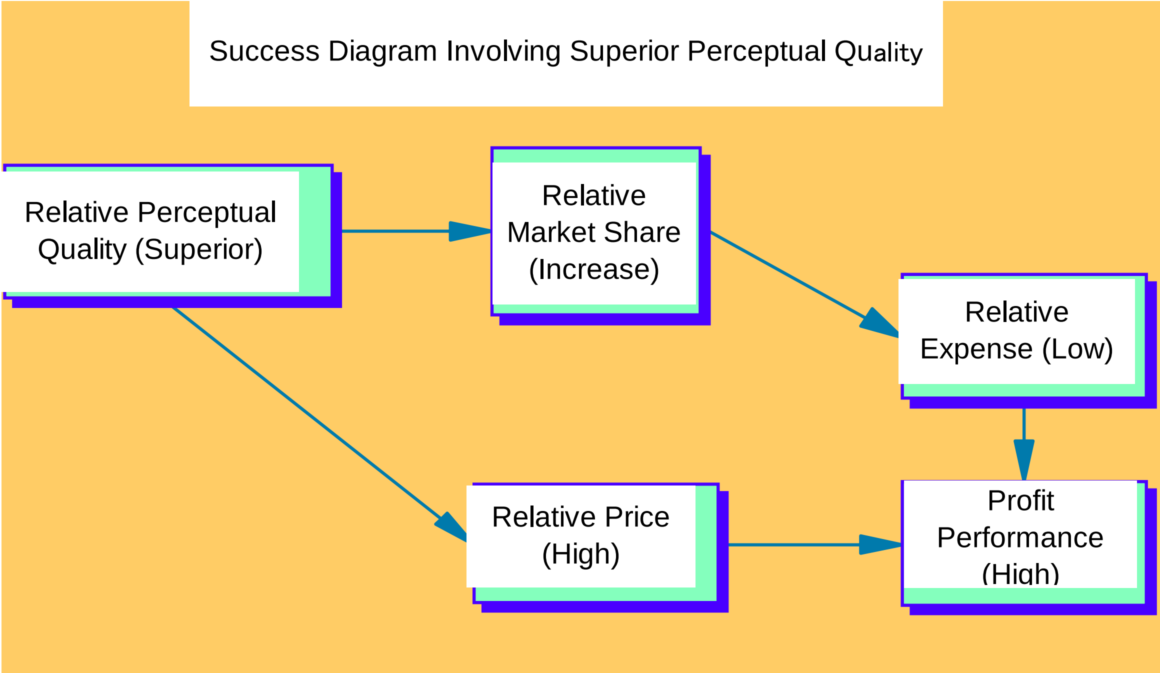
・In a long term, a firm that sells products with a superior quality or ones with an improved quality can develop markets, expand own shares and obtain a higher profit.

-High market share lends itself to profitability.

・As a firm having gained a high market share can come down with the experience curve faster than other firms, and take advantage of the economy of scale, it can decrease cost faster than others.　Therefore, the higher the share , the greater the profit ratio.



Origin: Buzzell & Gale (1988), *The PIMS principles: Linking strategy to performance,* Diamond Inc., p.136,



Origin: Buzzell & Gale (1988), *The PIMS principles: Linking strategy to performance,* Diamond Inc., p.136, dia.5-4

◆Price Competition between McDonald's and Lotteria

▲In Nov. 1997, Lotteria introduced ¥390 combo meal, and reduced the price of its hamburger to ¥130 and its cheese burger to ¥160. <Prices parity to McDonald's>

▲In Nov. '97 and Feb. '98, Lotteria dropped the prices of its hamburger to ¥80 and its cheese burger to ¥100, as a limited-time offer.

-McDonald's countered.

▲In Jul. '98, McDonald's reset its prices: the hamburger at ¥65 and cheese burger at ¥80.

-Lotteria: "No way can we match ¥65."

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