

Student Version

PART 2

**STRATEGIC
ACTIONS:
STRATEGY
FORMULATION**

PowerPoint Presentation by Charlie Cook
The University of West Alabama

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CHAPTER 4

Business-Level Strategy

Strategic Management

Competitiveness and Globalization:

Concepts and Cases

Seventh edition

Michael A. Hitt • R. Duane Ireland • Robert E. Hoskisson

Business-Level Strategy (Defined)

- An integrated and coordinated set of commitments and actions the firm uses to gain a competitive advantage by exploiting core competencies in specific product markets.



The Purpose of a Business-Level Strategy

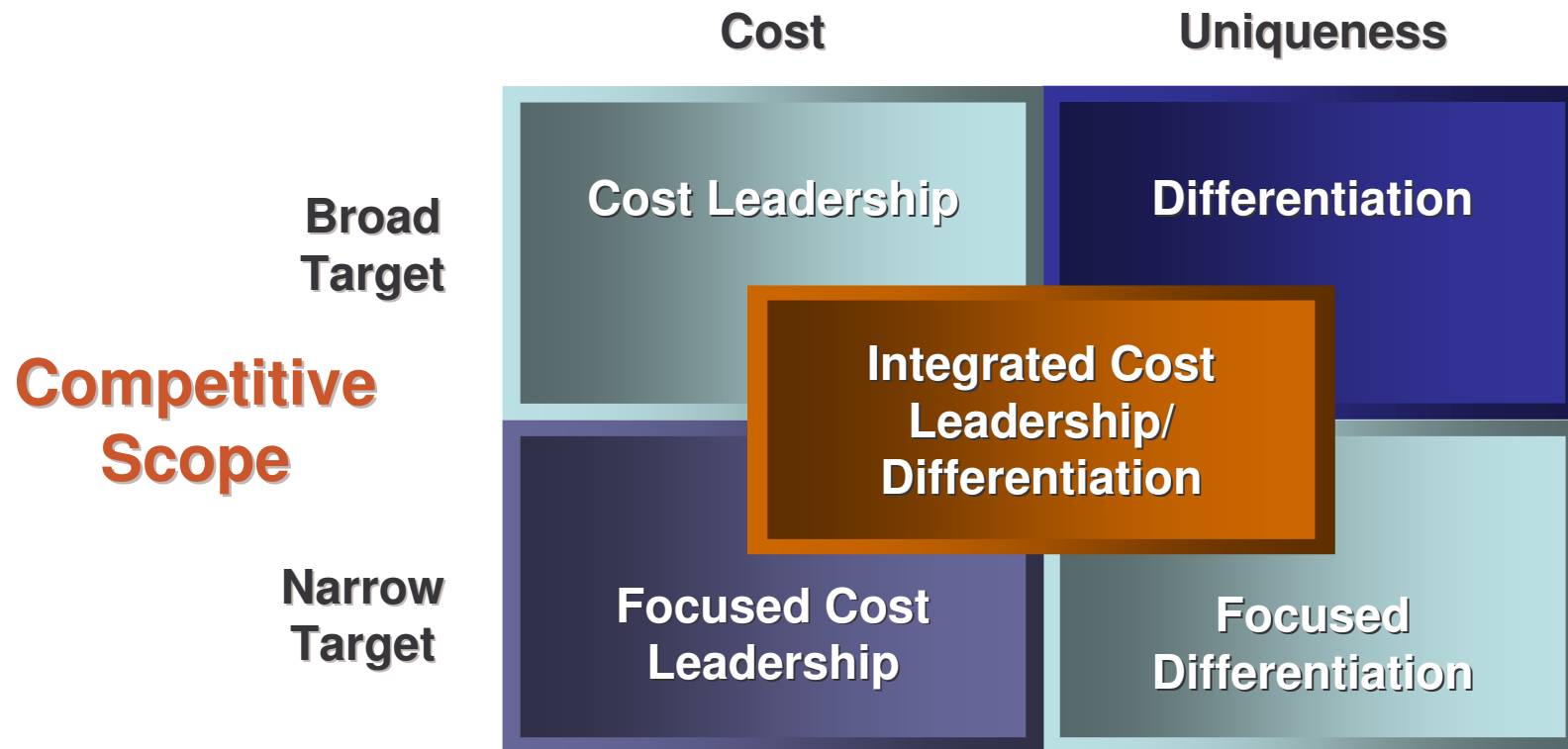
- Business-Level Strategies
 - Are intended to create differences between the firm's position relative to those of its rivals.
- To position itself, the firm must decide whether it intends to:
 - Perform activities differently or
 - Perform different activities as compared to its rivals.

Types of Potential Competitive Advantage

- Achieving **lower overall costs** than rivals
 - Performing activities differently (reducing process costs)
- Possessing the capability **to differentiate** the firm's product or service and command a premium price
 - Performing different (more highly valued) activities.

Types of Business-Level Strategies

Competitive Advantage



Cost Leadership Strategy: Competitors

Rivalry with Existing Competitors



- Due to cost leader's advantageous position:
 - Rivals hesitate to compete on basis of price.
 - Lack of price competition leads to greater profits.

Cost Leadership Strategy: Buyers

Bargaining Power of Buyers



- Can mitigate buyers' power by:
 - Driving prices far below competitors, causing them to exit, thus shifting power with buyers back to the firm.

Cost Leadership Strategy: Suppliers

Bargaining Power of Suppliers



- Can mitigate suppliers' power by:
 - Being able to absorb cost increases due to low cost position.
 - Being able to make very large purchases, reducing chance of supplier using power.

Cost Leadership Strategy: New Entrants

The Threat of Potential Entrants



- Can frighten off new entrants due to:
 - Their need to enter on a large scale in order to be cost competitive.
 - The time it takes to move down the learning curve.

Cost Leadership Strategy: **Substitutes**

Product Substitutes



- Cost leader is well positioned to:
 - Make investments to be first to create substitutes.
 - Buy patents developed by potential substitutes.
 - Lower prices in order to maintain value position.

Differentiation Strategy

- An integrated set of actions taken to produce goods or services (at an acceptable cost) that customers perceive as being different in ways that are important to them.
 - Focus is on nonstandardized products
 - Appropriate when customers value differentiated features more than they value low cost.

Differentiation Strategy: Competitors

Rivalry with Competitors



- Defends against competitors because brand loyalty to differentiated product offsets price competition.

Differentiation Strategy: Buyers

Bargaining Power of Buyers



- Can mitigate buyers' power because well differentiated products reduce customer sensitivity to price increases.

Differentiation Strategy: Suppliers

Bargaining Power of Suppliers



- Can mitigate suppliers' power by:
 - Absorbing price increases due to higher margins.
 - Passing along higher supplier prices because buyers are loyal to differentiated brand.

Differentiation Strategy: **New Entrants**

The Threat of Potential Entrants



- Can defend against new entrants because:
 - New products must surpass proven products.
 - New products must be at least equal to performance of proven products, but offered at lower prices.

Differentiation Strategy: Substitutes

Product Substitutes



- Well positioned relative to substitutes because:
 - Brand loyalty to a differentiated product tends to reduce customers' testing of new products or switching brands.

Focus Strategies

- An integrated set of actions taken to produce goods or services that serve the needs of a particular competitive segment.
 - Particular buyer group—youths or senior citizens
 - Different segment of a product line—professional craftsmen versus do-it-yourselfers
 - Different geographic markets—East coast versus West coast

Focus Strategies (cont'd)

- Types of focused strategies
 - Focused cost leadership strategy
 - Focused differentiation strategy
- To implement a focus strategy, firms must be able to:
 - Complete various primary and support activities in a competitively superior manner, in order to develop and sustain a competitive advantage and earn above-average returns.

Integrated Cost Leadership/ Differentiation Strategy

- A firm that successfully uses an integrated cost leadership/differentiation strategy should be in a better position to:
 - Adapt quickly to environmental changes.
 - Learn new skills and technologies more quickly.
 - Effectively leverage its core competencies while competing against its rivals.

Integrated Cost Leadership/ Differentiation Strategy (cont'd)

- Commitment to strategic flexibility is necessary for implementation of integrated cost leadership/differentiation strategy.
 - Flexible manufacturing systems (FMS)
 - Information networks
 - Total quality management (TQM) systems