CHAPTER 5

BUSINESS LEVEL STRATEGIES

PORTER FIVE FORCES MODEL - COMPETITIVE ANALYSIS

- It is an excellent model use to analyse a particular environment in an industry
- Strategists can use the five forces Model to

STEP 1	Identify the specific competitive pressures associated with each of five forces
STEP 2	Evaluate how strong the pressures are (Strong, moderate, weak)
STEP 3	Determine whether the collective strength of all forces is condusive for earning forces

3. Bargaining Power of Suppliers

- Few suppliers can command bargaining power when –
  - Their product are crucial to buyer
  - Substitutes not available
  - Suppliers are more concentrated than Buyers

4. Rivalry among Current / Existing Players

- The more intensive the rivalry, the less attractive is the Industry.
- Rivalry among competitors tends to be cut-throat and the industry profitability becomes low when
  - An Industry has no clear Leader
  - Competitors operate with high fixed cost
  - Competitors face Exit Barrier
  - Competitors have little opportunity to differentiate their products
  - Industry faces slow growth

5. Threat from Substitutes

- The final force that can influence industry profitability is the availability of substitutes for the product
- Firms must search for product that perform nearly the same function.

Following are the five areas of competition / five forces / competitive pressures

1. Threat of New Entrants

- A firm's profitability tends to be higher when other firms are blocked from entering the Industry
- New Entrants can reduce the industry profitability because they add new production, leading to increase in supply (even at lower price)
- Common barriers to entry include
  - Capital Requirements
  - Economies of scale
  - Product Differentiation
  - Switching Cost
  - Brand Identity
  - Access to Distribution channels
  - Possibility of Aggresive Retaliation

2. Bargaining Power of Customers/ Buyers.

- Buyers of an industry's can sometimes exert pressure to get products at lower prices or better services.
- It mostly happens when -
  - Buyers have full knowledge of the product sources & their substitutes
  - Buyers spend a lot of money on P&S
  - Product is not critical to Buyer's needs
  - Buyers are more concentrated than Suppliers

MICHAEL PORTER GENERIC STRATEGIES

- According to Michael Porter, Generic or basic strategies allow organisations to gain competitive advantage from 3 different basis - Cost leadership, Differentiation & focus.

Cost Leadership Differentiation Focus

Cost Leadership	Products are standardised, sold at very low price, for price sensitive Buyers
Differentiation	Producing unique products & services, targeting price insensitive Buyers
Focus	Products & Services fulfills the need of small group of Customers

"These strategies have been termed generic because they can be pursued by any type of Organisation"

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COST LEADERSHIP STRATEGIES

- It involves producing standardized products at a very low cost per unit targeting price sesitive Buyers

- This strategy is more effective when
  - market consist of price-sensitive Buyers
  - Buyers do not care much about one brand

- This strategy includes
  - Low overheads
  - Reduction In waste
  - Wide span of control
  - Effective Budgetory control

- Procedure - to achieve cost leadership Strategy

Forecast the demand
↓
Optimum use of Resources
↓
Achieving Economies of Scale
↓
Standaddization of Product
↓
Investing in advance technology

- Risks - Competitors can Imitate strategy
  - Buyer may shift to differentiating features

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- Advantages – Cost Leadership strategy may help to remain profitable even with rivalry, new Entrants, supplier's power, substitute & buyer's power.

Rivalry	Competitors are likely to avoid price war since the production & sales is at low prices.
Buyers	Price sensitive Buyers would be prefering & will continue to buy.
Suppliers	Cost Leaders absorb the increase in price before raising prices for customer
Entrant	Low Cost Leaders Create barrier to market through efficiency
Subsitutes	Reduction in war due to lower Costs

- Disadvantages
  - Competitors can imitate strategy
  - Successful only if firm can achieve high Sale
  - Difficult to keep cost's Low
  - Changes in technology is a great threat

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DIFFERENTIATION STRATEGIES

- It involves producing unique products & service & charging a premium price, targeting relatively price - sensitive Buyers

- This strategy requires
  - a careful study of Buyer's needs/preferences
  - creating customer loyalty by offering special features

- It Includes
  - Charging a premium price
  - Improved service
  - Greater convinience, more features

- Basis of differentiation
  Product : Innovative products can have advantage over competitors
  Organisation: Location advantage, name recognition, customer loyalty
  Pricing : Influenced by customer's Ideal value for the product

$\boxed{\text{MC: POP}}$

- Risks [same as a Cost Leadership]
  - Competitors can imitate strategy
  - Buyers may shift to standardised product.

- Advantages - A differentiation strategy may help to remain profitable even with rivalry, new entrants, supplier power, substitute & buyer's power.

Rivalry	Brand loyalty acts as a Safeguard against competitors
Buyers	Price Insensitive Buyers do not negotiate for price
Supplier	Because of differentiating features, customers are willing to pay premium
Entrant	Its tough for new Entrants to provide differentiating features at a comparable price
Substitutes	Substitutes can't replace because of Brand loyalty

- Disadvantages
  - In long run, uniqueness is difficult to sustain [competitors may imitate]
  - Buyers may shift to standardized good
  - Differentiating features is not valued by customers.

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FOCUS STRATEGIES

- It involves producing Product & Services that fulfill the needs of a Narrow market

- It consists of custumers whose needs & preference are distinctively different from the rest of the market

- It is effective when
  - consumers have distinctive preferences
  - when medium sized firms persue cost Leadership or differentiation

- A succesful focus strategy depends upon an industry segment
  - that is of sufficient size
  - has good growth potential &
  - Is not critical to the success of others

- Risk
  - Competitors can imitate the strategy
  - Consumer preferences may shift towards the product desired by the market as a whole

- To achieve focused strategy, following are the measures -

Selecting specific areas which are not covered by cost leaders & differentiators

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Creating superior skills for serving to such markets

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Developing innovative ways in managing the value chain

- Types of Focus strategy are

Focused Cost Leadership	Focused differentiation
Firms that compete based on price & target a narrow market	Firms that compete based on uniqueness & target a narrow market

- Advantages
  - Rivals & New Entrants find difficult to compete.

- Disadvantages
  - Firms lacking distinctive competencies may not pursue focus strategy
  - Cost are high - can cause problems
  - In long run, market can be taken over.

BEST COST PROVIDER STRATEGY

- Best cost provider strategy includes the following features –

    a) This strategy emphasis on more value for money rather than purely cost & differentiation

    b) It focus on value conscious buyer not price-sensitive or insentive

    c) It includes lowering cost but at the same time enhancing features & quality

    d) This strategy entails selling products of similar (or better) features & quality as rival products but at a lower price.

- Best cost provider strategy includes providing customers more value for money by emphazing low cost & better quality difference. It can be done by

Offering products at lower price than what is being offered by rivals for products with comparable quality & features

Charging similar price as by rivals for the products with much higher quality & better features.