

HSJ Chapter 5

Business-Level Strategy

BUSINESS-LEVEL STRATEGY

- Overall competitive theme of a business.
- Whom to serve
- Needs and desires trying to satisfy
- How to satisfy

THE TWO FUNDAMENTAL STRATEGIES

- Low Cost
- Differentiation

LOWERING COSTS

- Enables a company to:
 - gain a competitive advantage in commodity markets.
 - undercut rivals on price.
 - gain market share.
 - maintain or increase profitability.

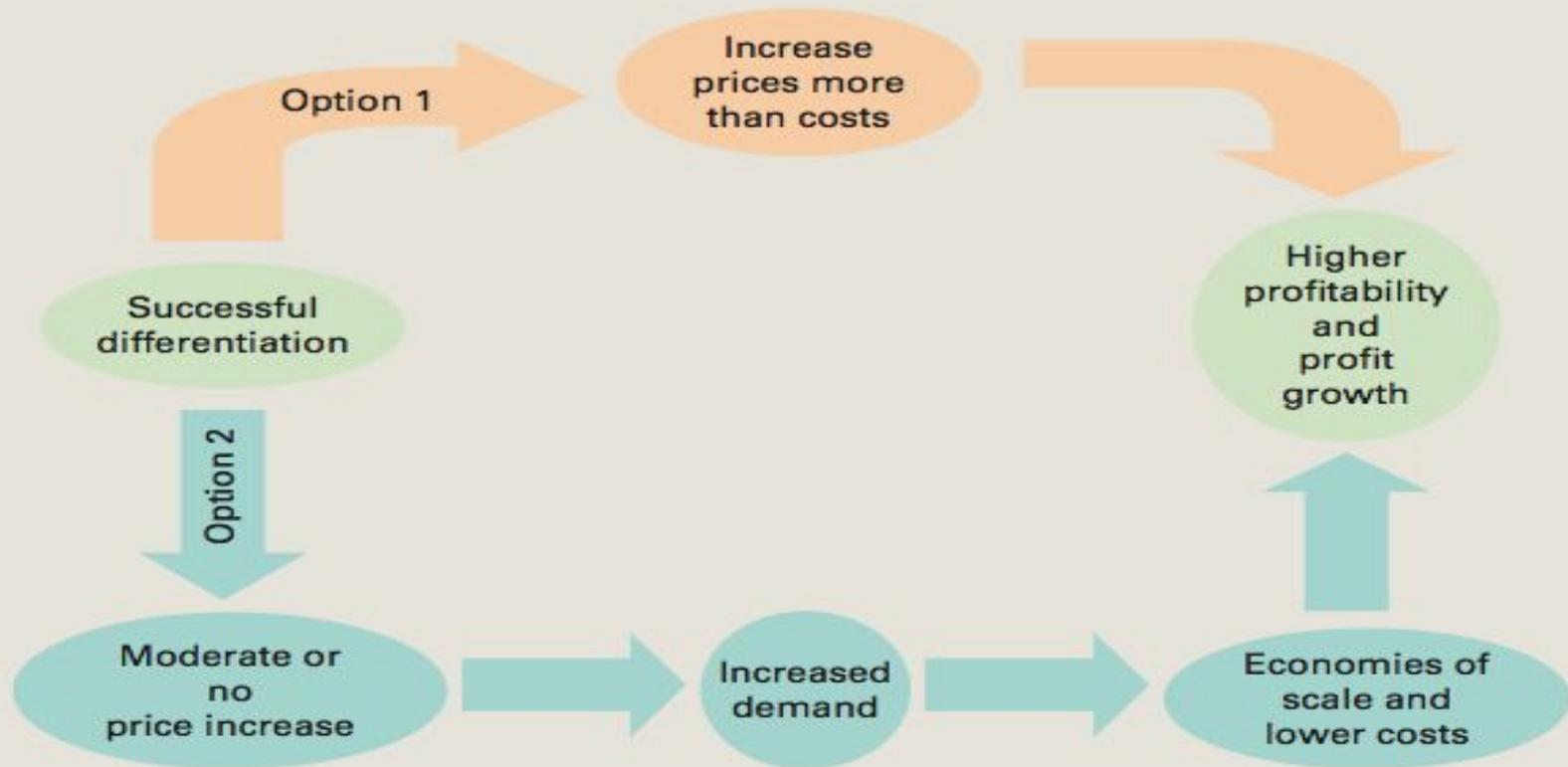
DIFFERENTIATION

- Distinguishing oneself from rivals by offering something that they find hard to match .
- Product differentiation is achieved through:
 - superior reliability, functions, and features.
 - better design, branding, point-of-sale service, after sales service, and support.

DIFFERENTIATION

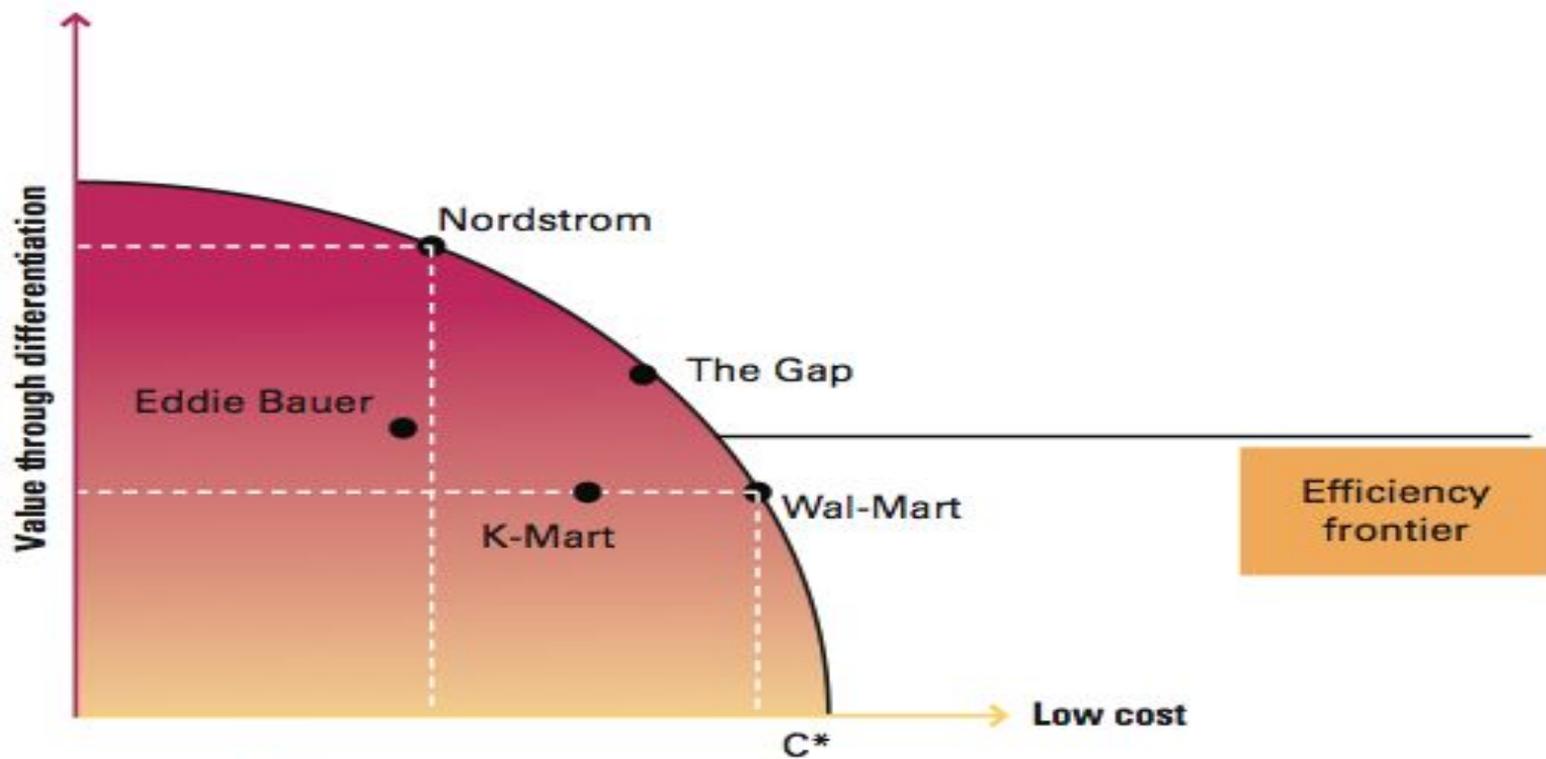
- Advantages
 - Allows a company to charge a premium price.
 - Helps a company to grow overall demand and capture market share from its rivals.

Figure 5.1 Options for Exploiting Differentiation



Source: Charles W.L. Hill © Copyright 2013.

Figure 5.2 The Differentiation–Low Cost Tradeoff



Source: Charles W.L. Hill © Copyright 2013.

THE DIFF./LOW-COST TRADEOFF

- Efficiency frontier
 - Shows all the positions a company can adopt with regard to differentiation and low cost.
 - Has a convex shape because of diminishing returns.
- Multiple positions on the differentiation-low cost continuum are viable.
 - Have enough demand to support an offering.

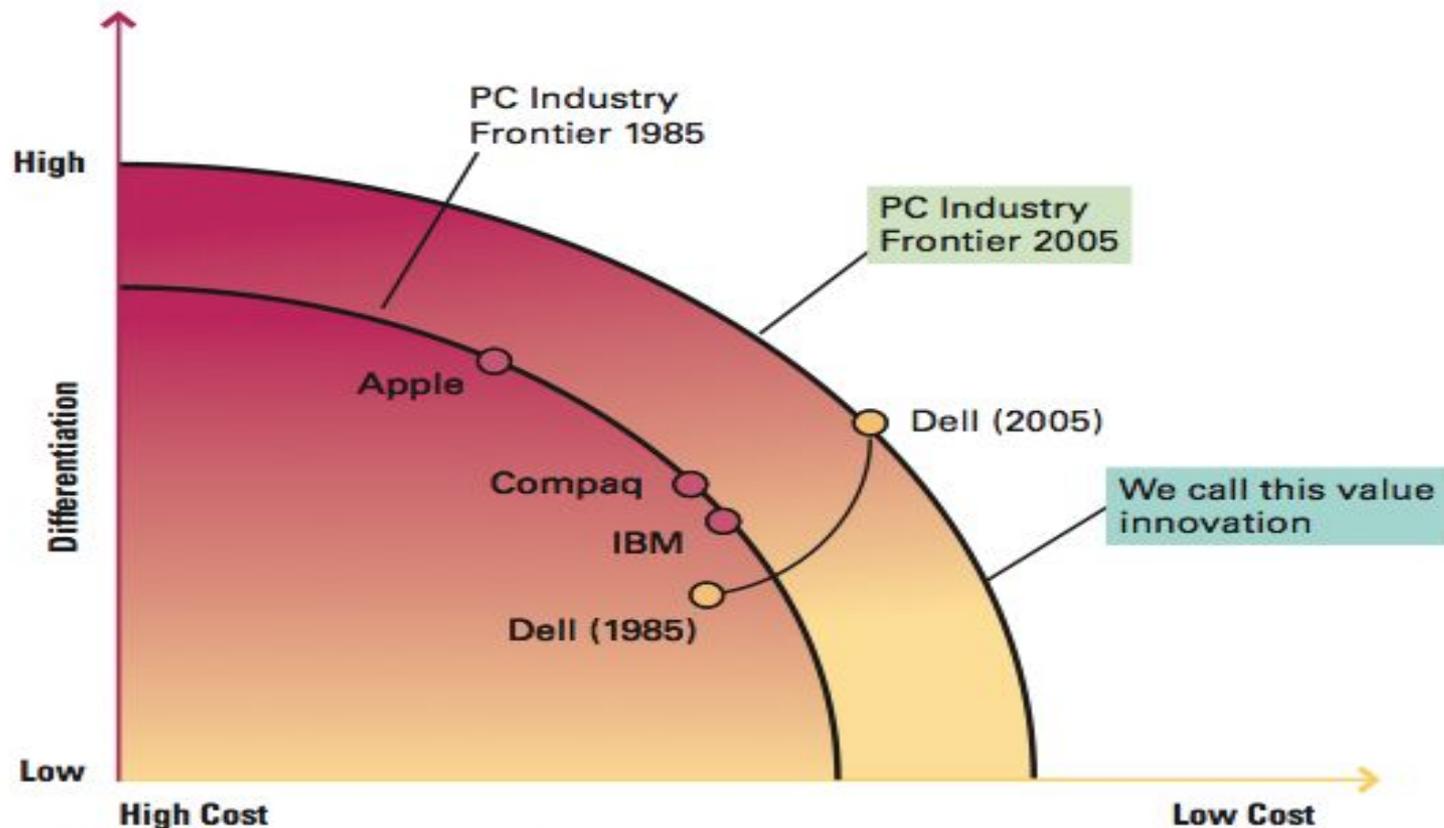
THE DIFF./LOW-COST TRADEOFF

- To get to the efficiency frontier, a company must:
 - pursue the right functional-level strategies.
 - be properly organized.
 - ensure its business-level strategy, functional-level strategy, and organizational arrangement align with each other.

VALUE INNOVATION

- Occurs when innovations push out the efficiency frontier in an industry, enabling greater value to be offered through superior differentiation.
- At a lower cost than was thought possible.
- Enable a company to outperform its rivals for a long period of time.

Figure 5.3 Value Innovation in the PC Industry



Source: Charles W.L. Hill © Copyright 2013.

MARKET SEGMENTATION

- Decision of a company to group customers based on important differences in their needs to gain a competitive advantage.
- Standardization strategy - Producing a standardized product for the average customer, ignoring different segments.

MARKET SEGMENTATION

- Standardization strategy (no segmentation)
- Segmentation strategy - Producing different offerings for different segments, serving many segments or the entire market.
- Focus strategy - Serving a limited number of segments or just one segment.

COSTS AND CUSTOMIZATION

- Normally customization > greater costs
- Costs reduced by
 - Mass customization
 - Textbook examples in Ch. 4: Dell; M&Ms; Pandora
 - Component sharing

COST REDUCTION: TWO APPROACHES

- Costco: 4K SKUs
- Wal-Mart: 142K SKUs

GENERIC BUSINESS-LEVEL STRATEGIES

Broad low-cost strategy

- Lowering costs in order to lower prices and still make a profit

Focus low-cost strategy

- Targeting a certain segment or niche and trying to be the low-cost player in that niche

GENERIC BUSINESS-LEVEL STRATEGIES

Broad differentiation strategy

- When a company differentiates its product in some way

Focus differentiation strategy

- When a company differentiates by focusing on a particular segment

Figure 5.4 Generic Business-Level Strategies



BLUE OCEAN STRATEGY

- Value Innovation: Creating a new market space
 - Southwest Airlines
 - [From TIME article:] Stock appreciation from 1978 to 2016: 53,700% return (S&P: 2,300% return)
 - Jan 2016 to present: NYSE Airline index is up 3%; Southwest down by 4%

BLUE OCEAN STRATEGY

Redefine product offering

Managers ask about factors:

- Eliminate?
- Reduce?
- Raise (about the standard)?
- Create?

Cases

- Virgin America
- IKEA
- Microsoft Office versus Google Apps
- Nordstrom