Atlantic International University

Strategic Management Assignment

<u>BUILDING AND SUSTAINING COMPETITIVE ADVANTAGE</u>

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INTRODUCTION: PURPOSE OF THE TOPIC

Definitions:

What is *Strategic Management*?

Strategic management is the art, science and craft of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its objectives.[1]

Strategic management is the process of managing in a way that is consistent with the corporate strategy or in such a way as to capitalize on the opportunities that present themselves.[2]

What is *Competitive Advantage*?

A competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices.[3]

A firm has a competitive advantage when it implements a strategy competitors are unable to duplicate or find too costly to imitate. An organization can be confident that its strategy has resulted in one or more useful competitive advantages only after competitors' efforts to duplicate its strategy have ceased of failed. The speed with which competitors are able to acquire the skills needed to duplicate the benefits of a firm's value-creating strategy determines how long the competitive advantages will last.[4] 1

[1] ***en.wikipedia.org/wiki/Strategic_ management***
[2] ***www.hainescentre.com/strategic-management/***
[3] ***tutor2u.net/business/strategy/competitive_advantage.htm***
[4] ***Michael A. Hitt et al. Management of Strategy: Concepts and Cases. 7th ed. Thomson South-Western (2007, p.4-5)***

Rationale for the Topic:

In Bill Clinton's first presidential campaign, he was behind in every poll in his race for president. With allegations of sexual misconduct and philandering swirling around him, leading political analysts and columnists agreed that it was just a matter of days before he would be forced to drop out. Then, employing an amazing strategy based on just four words—"It's the economy, stupid!—"Clinton strategist James Carville turned it all around. Clinton concentrated on this short message to the exclusion of all else. This simple strategy led to defeat for George Bush and two terms for Clinton as president. Though living 2,500 years before the Clinton bid for the presidency, the Greek general Xenophon would have related to Carville's strategy and the ancient Chinese strategist Sun Tzu would also have understood it perfectly.

If you examine why some businesses always seem to beat their competition, you will again and again find evidence of a thoughtful strategy. These companies seem to be able to take almost any product or service and go up against almost any competitor and win. It doesn't make any difference whether they are a "learning organization." It doesn't matter whether they use "one-to-one marketing." If there is an economic downturn, these companies seem to either get out just in time, or somehow use the downturn to become even more profitable. Technological breakthroughs, which drive others into bankruptcy, always seem to help them. Shortages are turned to their advantage. Moreover, these winners are in every industry from cottage to high tech, and they come in all sizes, from giant corporations to home businesses. What all these winning companies share is their ability to overcome the competition in nearly every situation that crops up. But they share something else, and that is the reason that they are able to overcome their competition. What these companies also share are identical principles that their leaders employ again and again.

If common strategy principles could be codified, they would certainly be invaluable to business, because once revealed they could be used by others to repeat a success again and again. Strategy analysts have tried to find such principles in the past, especially those with a military bent. This is because the study of strategy started with warfare, and the concept that there are military principles for success in strategy has been accepted for several thousand years.

It is perhaps for this reason that the very word "strategy" comes from the Greek word "strategos," which means "the art of the general."[5]

The rationale for choosing this topic is to explore the opportunities and routes available for firms to build competitive advantage over their rivals.

DESCRIPTION

Firms have long attempted to build competitive advantage through an infinite number of strategies. Competitive strategies are designed to help firms deploy their value chains and other strengths to build competitive advantage. Thus, in practice, each company formulates its specific competitive strategy according to its own analysis of internal strengths and weaknesses, the value it can provide, the competitive environment, and the needs of its customers.

Although there are as many different competitive strategies as there are firms competing, three underlying approaches to building competitive advantage appear to exist at the broadest level. They are (1) low-cost leadership strategies, (2) differentiation strategies, and (3) focus strategies. These three broad types of competitive strategies have also been labeled generic strategies. All three generic strategies are designed to achieve distinction relative to a rival. I shall attempt to examine how each generic type of competitive strategy can build competitive advantage.

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GENERAL ANALYSIS

LOW-COST LEADERSHIP STRATEGIES

Low leadership strategies are based on a firm's ability to provide a product or service at a lower cost than its rivals. The basic operating assumption behind a low-cost leadership strategy is to acquire a substantial cost advantage over other competitors that can be passed on to consumers to gain a large market share. A low-cost strategy then produces competitive advantage when the firm can earn a higher profit margin than results from selling products at current market prices. In many cases, firms attempting to execute low-cost strategies aim to sell a product that appeal to an "average" customer in a broad target market. Oftentimes; these products or services are highly standardized and not customized to an individual customer's tastes, needs, or desires. A central premise of the low-cost

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[5]***Cohen, William A, The art of the strategist: 10 essential principles for leading your company to victory (2004, p.8-10)***

leadership strategy is the following: By making products with as few modifications as possible, the firm can exploit the cost reduction benefits that accrue from economies of scale and experience effects. Low-cost leadership strategies can also flourish in service businesses as well.
In these arenas, firms attempt to capture economies of scale in information systems, procurement, logistics and even marketing.

Examples of firms that successfully used a low-cost leadership strategy to build competitive advantage include Whirlpool in washers and dryers, Black and Decker in power tools, BIC in ball point pens, Wal-Mart in retailing, Gillette in razor blades, Texas Instruments and Intel in semiconductors, Samsung in color television sets, Sharp in flat-panel screens and LCD technology, Citigroup in credit card services, Emerson Electric in power drives and tolls, and Dupont in nylon and other synthetic fibers.

Building a Low-Cost Advantage

The low-cost strategy is based on locating and leveraging every possible source of cost advantage in a firm's value chain of activities. Once a firm pursuing a low cost leadership strategy has discovered an important source of cost improvement and reduction, however, it must then seek new ways to lower its activity costs even further over time. In other words, the sources of low-cost advantage are not enduring or sustainable without continuous improvement and ongoing searches for improved process yields, streamlined product design, or more efficient means of delivering a service.

Building a cost-based advantage thus requires the firm to find and exploit all the potential cost drivers that allow for greater efficiency in each value-adding activity. A cost driver is an economic or technological factor that determines the cost of performing some activity. Important cost drivers that shape the low-cost leadership strategy include (1) economies of scale, (2) experience or learning curve effects, (3) degree of vertical integration, and even (4) location of activity performance. Firms can tailor their use of these cost drivers to build low-cost leadership across different value-adding activities.

In pursuing a cost-based advantage, no firm can obviously ignore such product attributes as quality, service, and reliability. If it does, its offering may become so unacceptable that consumers will refuse to buy it or will buy it only if the price is reduced to a level below what is needed to sustain profitability. A firm pursuing a cost-based advantage must therefore strive to achieve some degree of quality parity or proximity with other firms that have defined the standards of product quality valued by customers.

Advantages of Low-Cost Strategies

The appeal of the low-cost leadership strategy is based on the strong relationship that appears to exist between high market share, and high profitability. Numerous studies have found that firms with high market share, for various reasons, can command above-average industry profitability over extended periods of time. Some of the empirical findings that appear to explain, at least practically, the relationship between high market share and profitability include economies of scale, risk avoidance by customers, strong market presence, and focused management.

Risk avoidance by customers means that buyers who are currently familiar with the low-cost leader's products are unlikely to switch to a competing brand of a similar product, unless that brand has something very different or unique to offer. Thus, low-cost producers that achieve a dominant market share position may induce risk aversion on the part of the industry's buyers. Customers often prefer to buy from well-known, dominant-share companies because they feel these firms will be around a long time after their purchase. This reasoning is particularly true for products that are costly or require after-sales service, such as electrical products, computes, and appliances. Emerson electric, a leading firm in developing a broad range of electrical motors, drives, tooling, and other components, has built a commanding market position in these products. Emerson's emphasis on being the "best-cost producer" in any given category means that it invests in state-of-art manufacturing process to strive for ever-higher efficiencies. At the same time, industrial customers that use Emerson's products feel the company's commitment to its businesses and know that components and after-sales service will be available.

Strong market presence means that low-cost firms are able to "convince "their competitors not to start price wars within the industry. This means that low-cost firms can set the stage for pricing discipline within the industry. In turn, prices are kept stable enough over time to ensure that all firms in the industry maintain some degree of profitability. Attempts to establish pricing discipline were used by leaders in the US steel, aluminum, and heavy machinery industries during the 1960s.

The arrival of intense global competition, however, has made this type of discipline difficult to enforce in most manufacturing industries today.

Low-cost firms are often able to keep potential competitors out of the industry through their price-cutting power, which can generate substantial obstacles to firms contemplating entry into the industry. In other words, low-cost leadership strategies, when effectively implemented and understood by potential entrants, constitute a very effective barrier to entry that governs industry rivalry. For example, Intel currently dominates the production of microprocessors that serve as the "brains" for personal computer. By investing heavily in the latest generation of new technologies and processes, Intel has become the lowest-cost producer of these microprocessors. Its cutting-edge manufacturing skills complement its fast product development cycles.

Low-cost firms also have the advantage of being able to sustain price increases passed on by their suppliers. By operating at more cost-efficient levels of production, low-cost firms can more easily absorb increases in the prices of components or ingredients used in their products. For example, Hershey Foods, a low-cost producer of chocolates and candies, is probably in a better position to absorb increases in cocoa prices than other smaller chocolate and candy manufactures.

Disadvantages of Low-Cost Strategies

Cost-based strategies are not without their disadvantages, some of them rather extreme. The biggest disadvantage associated with low-cost leadership is the high level of asset commitment and capital-intensive activities that often accompanies this strategy. To produce or deliver services at low cost, firms often invest considerable sums of resources into rigid, inflexible assets and production or distribution technologies that are difficult to switch to other products or uses. Thus, firms can find themselves locked in to a given process or technology that could rapidly become obsolete. Such was the case with Timex Watch Company during the 1960s and 1970s when the company was the low-cost producer of mechanical watches. When quartz and digital watches became popular during the late 1970s, Timex was so committed to its mechanical watch and process technology that it could not easily adapt to technological change.

A huge disadvantage facing low-cost firms is that cost reduction methods are easily imitated or copied by other firms. Cost advantages, particularly in standardized production or service delivery processes, are often short-lived and fleeting. U.S steelmakers were caught in this situation during the 1970s when they faced the rising tide of cheaper Japanese steel imports. In fact, many Japanese steelmakers were able to leapfrog ahead of U.S. companies by innovating an even more advanced manufacturing process called continuous casting that made U.S. processes using open-hearth furnaces obsolete. Japanese steelmakers were able to forge better-quality steel at lower costs than comparable U.S. plants. What made the situation even worse for U.S. companies was their failure to reinvents in new technologies; companies such as U.S. Steel, Bethlehem Steel, and National Steel believed their low-cost production was a long-standing, enduring advantage. Now, Korean steelmakers are adopting more innovative steel fabrication technologies to undercut even their Japanese competitors. Korean steel companies, such as Posco, have found new techniques to lower steel production costs even further, thus making it difficult for Japanese and U.S. firms to respond effectively. Thus, firms obsessed with low costs may find themselves ambushed by competitors taking a different strategy designed to outflank a dominant industry player. Also, low-cost leadership strategies may result in a firm's missing new developments that may redefine an industry's future structure.

DIFFERENTIATION STRATEGIES

Another strategic approach to building competitive advantage is that of pursuing differentiation strategies. Differentiation strategies are based on providing buyers with something that is different or unique, that makes the company's product or service distinct from that of its rivals. The key assumption behind a differentiation strategy is that customers are willing to pay a higher price for a product that is distinct (or at least perceived as such) in some important way. Superior value is created because the product is of higher quality, is technically superior in some way, comes with superior service, or has a special appeal in some perceived way. In effect differentiation builds competitive advantage by making customers more loyal-and less price-sensitive-to a given firm's product. Additionally, consumers are less likely to search for other alternative products once they are satisfied.

Differentiation may be achieved in a number of ways. The product may incorporate a more innovative design, may be produced using advanced materials or quality processes, or may be sold and serviced in some special way. Often, customers will pay a higher price if the product or service offers a distinctive or special value or "feel" to it. Differentiation strategies offer high profitability when the price premium exceeds the costs of distinguishing the product or service. Examples of companies that have successfully pursued differentiation strategies include Prince in tennis rackets, Callaway in golf clubs, Mercedes and BMW in automobiles, Coors in beer, Beretta in guns, Brooks Brothers and Paul Stuart in classic-cut clothing, Dinners Club/Carte Blanche in credit cards, Bose in stereo speakers, American express in travel services, J.P Morgan Chase in investment banking, Krups in coffee makers and small kitchen appliances, and Benetton in sweaters and light fashions.

Building a differentiation-Based Advantage

Firms practicing differentiation seek to design and produce highly distinctive or unique product or service attributes that create high value for their customers. Within the firm, differentiation-based sources of competitive advantage in value-adding activities can be built through a number of methods.

An important strategic consideration managers must recognize is that differentiation does not mean the firm can neglect its cost structure. While low unit cost is less important than distinctive product features to firms practicing differentiation, the firm's total cost structure is still important. In other worlds, the costs of pursuing differentiation cannot be so high that they completely erode the price premium the firm can charge. Firms pursuing differentiation must still control expenses to balance somewhat higher costs with a distinctive edge in key activities. The cost structure of a firm or business pursuing a differentiation strategy still needs to be carefully managed, although attaining low-unit costs is not the overriding priority. A firm selecting differentiation must therefore aim at achieving cost parity or, at the very least, cost proximity relative to competitors by keeping costs low in areas not related to differentiation and by not spending too much to achieve differentiation. Thus, the cost structure of a firm practicing differentiation cannot be that far above the industry average. Also, differentiation is not an end in itself; companies must continue to search for new ways to improve the distinctiveness or uniqueness of their products/services.

7-Eleven (formerly Southland Corporation) has practiced differentiation to avoid direct competition with large supermarket chains. It offers consumers greater convenience in the form of nearby location, shorter shopping time, and quicker checkout. It achieves these benefits by designing a business system within the value chain that is different from that of supermarket chains in several key respects: smaller stores, more store locations, and narrower product line. Its approach is higher cost than that of supermarket chains, so 7-Eleven must ordinarily charge higher prices to achieve profitability. However, customers are generally willing to pay a premium in exchange for the greater convenience 7-Eleven provides. 7-Eleven still services for cost parity, however, by buying merchandise in bulk and keeping close control of inventory. Its current management team is placing renewed emphasis on cost reduction by introduction computerized ordering and tracking systems in U.S stores for even better product turnaround and inventory control.

Starbucks Coffee has grown at an annual rate exceeding 30 percent over the past decade as it rolls out its distinctive and specialized blends of coffee through United States. Once a Seattle-based coffee-bean retailer that pioneered the concept of uniquely blended coffees, Starbucks has grown to almost 1,800 outlets throughout the country and is currently opening up a new location almost every day. For the unique flavour of Starbucks' premium coffees and ice coffee drinks, the company can charge upward of $3 per servings. To remain ahead of other competitors such as Dunkin' Donuts and even smaller specialized coffee chains, starbucks has begun to roll out an increasing number of different types of beverages that capture and retain its premium image. The Starbucks concept and image have become so popular that it is now serving new types of cold, fruit flavored drinks like Tiazzi to expand beyond coffees along. More recently, it has begun to sell many of its ice coffee drink mixes (e.g., Frapuccinos) through grocery store chains and other retailers.

In almost all differentiation strategies, attention to product quality and service represent the dominant routes for firms to build competitive advantage. For example, firms may improve a product's quality or performance characteristics to make it more distinctive in the customer's eyes, as Lexus does with its sleek line of automobiles or Tiffany & Company does with its broad line of jewellery and gift items. The product or service can also embody a distinctive design or offering that is hard to delicately, thus conveying an image of unique quality; as with Krups coffee and espresso makers or with American Express in travel services and charge cards. After-sales service, convenience, and quality are important means to achieve differentiation for numerous firms, such as for IBM in computer and electronic commerce technology or Hewlert-Packard in desktop printers and digital imaging technologies.

Technologically advanced products offer a natural route to pursue differentiation; new features convey a sense of quality that enables firms to distinguish themselves from competitors, as Sony has done with great success in its Walkmans, Discmans, Trinitron television sets, and now Playstation 1 and 2 video game systems. However, these same technologies also require the firm to remain on the cutting edge of innovation and quality accelerate new product development and to stay in touch with customer's needs and market trends.

It is not unusual for firms practicing differentiation to invest in production processes that use specially designed equipment that makes it hard for rivals to imitate the product's quality. Olympus Optical fine camera lenses are one example. Olympus's skills in fine optics and lens grinding make it difficult for other competitors to rapidly imitate its fine quality of cameras, microscopes, and other laboratory instruments that command premium prices through the world.

Any potential source of increased buyer value represents an opportunity to pursue a differentiation strategy. Buyer value can be increased or made more distinctive through several approaches, including (1) lowering the buyer's cost of using the product, (2) increasing buyer satisfaction with the product, and (3) modifying the buyer's perception of value. Of course, these three approaches to increasing buyer value are not mutually exclusive; a distinctive product or service that lowers buyer's direct costs can certainly increase their level of satisfaction as well. Nevertheless, increasing buyer value on any dimension usually means a need to reconfigure or to improve other activities within the firm's value chain.

Advantages of Differentiation

A big advantage behind the differentiation strategy is that it allows firms to insulate themselves partially from competitive rivalry in the industry. When firms produce highly sought-after, distinctive products, they do not have to engage in destructive price wars with their competitors. In effect, successful pursuit of high differentiation along some key product attribute or buyer need may allow a firm to carve its own strategic group within the industry. This has been particularly the case in the food preparations industry, where large manufacturers try to avoid direct price-base competition with one another through frequent product differentiation and new product introductions.

A major advantage behind differentiation is that customers of differentiated products are less sensitive to prices. In practical this attitude means that firms may be able to pass along price increases to their customers. Although the price lf Lexus automobiles have risen steadily over the past several years, demand for these cars also continues to rise, as does buyer loyalty. The high degree of customer satisfaction with Lexus cars has translated over to the sport utility vehicle segment, where vehicles command a far higher price and profit. Buyer loyalty means that successful firms may see a substantial increase in repeat purchases for the firm's products.

Another advantage is that strategies based on high quality may, up to a point, actually increase the potential market share that a firm can gain. One landmark study noted, in fact, that competitive strategies based on high product quality actually increased market share resulted in significantly increased profitability. Product quality often leads to higher reputation and demand that translate into higher market share.

Finally, differentiation processes substantial loyalty barriers that firms contemplating entry must overcome. Highly distinctive or unique products make it difficult for new entrants to compete with the reputation and skills that existing firms already possess. Nordstrom's ability to woo and retain customers in the cutthroat fashion and clothing retailing industry enabled the leading-edge store chain to anticipate its customer's needs and to offer them special promotions before they become available to the general buying public. Nordstrom's focus on superior customer service has, until recently, allowed the form to sell top-of-the line brands that offer a much higher margin than brands targeted to the middle market.

Disadvantages of Differentiation

A big disadvantage associated with differentiation is that other firms may attempt to "out differentiate" firms that already have distinctive products by providing a similar or better product. Thus, differentiation strategies, while effective in generating customer loyalty and higher prices, do not completely seal off the market form other entrants. Consider the market for steak sauces in the food industry. Once a competitor develops a particular flavour of steak sauce, its rivals can easily meet that challenge with their own offerings. In fact, excessive product proliferation can even hurt a firm's attempt to dedifferentiate, since customers may become confused with the wide variety of offerings. For example, H.J. Heinz's recent moves to offer ketchup with different coolers may have backfired, as some buyers are turned off by the prospect of putting purple or green ketchup on their French fries. The attempt to out-differentiate another rival's moves occurs frequently in the radio broadcasting industry. Frequently, a station will adopt a format that emphasizes a particular theme; oldies, light rock, rock form the 1970s, pop, easy listening, country, or Top 40.

However, the initial gains that any given station makes are difficult to sustain, because competing stations can dilute this message with their own variation of a theme. Most recently, some radio stations are attempting to reach a previously underserved market segment, such as the growing Hispanic or African American audience. Companies such as Radio One are buying stations in different parts of the country that have a strong African American presence. Radio one hopes that its distinctive music offerings and programs will enable it to capture a disproportionate share of advertising dollars of product that target the African American market. Thus, unless differentiation is based on the possession of some truly proprietary technology, expertise, skill, service, patent, or specialized asset, a firm runs the risk of being outmanoeuvred by an even shrewder competitor.

Another disadvantage of differentiation is the difficulty in sustaining a price premium as a product becomes more familiar to the market. As a product becomes more mature, customers become smarter about what they want, what genuine value is, and what they are willing to pay. Price premiums become difficult to justify as customers gain more knowledge about the product. #The comparatively high cost structure of a firm practicing differentiation could become a real weakness when lower-cost product imitations or substitutes hit the market. Consider, for example, the recent travails that beset Callaway Golf. Despite the enormous popularity of its Big Bertha golf club design that made swinging and higher ball easier, Callaway golf was unable to sustain a huge market share position in the golf equipment business because other competitors eventually followed with similar, but somewhat different, designs or variations on the same theme. Even existing golf equipment providers, such as Wilson innovated their own sets of large-head golf clubs that eroded Callaway’s once-distinctive identity in the marketplace. Callaway’s differentiation strategy yielded fewer benefits as new entrants seized the initiative away from the innovator and started producing similar clubs at lower cost.

Differentiation also leaves a firm vulnerable to the eventual “commoditization “of its product, service offering. Or value concept when new competitors enter the market or when customers become more knowledgeable about what is available. Over time, firms that are unable to sustain their initial differentiation-based lead with future product or service innovations will find themselves at a significant, if not dangerous, cost disadvantage when large numbers of customers eventually gravitate to those forms that can produce a similar product or service at lower cost.

Finally firms also face risks of overdoing differentiation that may overtaxes or overextend the firm's resources. For example Nissan Motor of Japan during the past decade became so obsessed with finding new ways to differentiate its cars that it produced more than thirty types of steering wheels for its line of cars and a broad line of engine, all of which eventually confused customers and made manufacturing costly. Nissan recently announced a sharp reduction in the number of steering wheel sizes, optional accessories, and other features in its cars to lower its operating cost. In 2000, Nissan reduced the number of core automobile platforms to seven in order to reduce the high cost of overlap and design. Excessive differentiation can seriously erode the competitive advantage and profitability of firms as rising operating costs eat into price premiums that customers are willing to pay.

FOCUS STRATEGIES

The third generic strategy is known as a focus strategy. Focus strategies are assigned to help a firm target a specific niche within an industry. Unlike both low-cost leadership and differentiation strategies that are designed to target a broader or industry-wide market, focus strategies aim at s specific and typically small niche. These niches could be a particular buyer group, a narrow segment of a given product line, a geographic or regional market, or a niche with distinctive, special tastes and preference. The basic idea behind a focus strategy is to specialize the firm's activities in ways that other broader-line (low-cost or diffrentiation0 firms cannot performs as well, Superior value, and thus higher profitability, are generated when other broader-line firms cannot specialize or conduct their activities as well as a focused firm. If a niche or segment has characteristics that are distinctive and lasting, then a firm can develop its own set of barriers to entry in much the same way that large established firms do in broader markets.

Building a focus-Based Advantage

Firm's can build a focus in one of two ways. They can adopt a cost-based focus in serving a particular niche or segment of the market, or they can adopt a differentiation based focus. Focus strategies are different from low-cost leadership and differentiation strategies in terms of the scope of the target market. Within a particular targeted market or niche, however, a focused firm can pursue many of the target market. Within characterise as the broader low-cost or differentiation approaches to building competitive advantage. Thus, many of the sources of competitive advantage discussed earlier for cost and differentiation also apply to focus strategies at the niche or segment level. It is important to remember that focus strategies attempt to pursue low-cost or differentiation with respect to a much narrower targeted market niche or product segment. Thus, the resources and skills that the firm or business uses must be specialized as well.

What do Krispy Kreme Doughnuts, Solectron, magna International, Southwest Airlines, American iron Horse, Bang and Olufsen, Nucor, chaparral Steel, and Patek Philippe have in common? These firms have adopted a well-defined focus/specialization strategy that has enabled them to earn high profits in industries that are fundamentally unattractive or fast changing. All of these companies have reconfigured their focus-driven value chain to emphasize either differentiation or cost-based sources of competitive advantage. Each of these companies has targeted a particular type of buyer or product segment that other broader-line competitors cannot serve as well. In effect firms with highly refined focus/specialization strategies have developed a distinctive competence in defending their niches from larger firms that have difficulty understanding or serving their target customers.

The number of examples of companies finding and building by-based focus strategies is growing. For example, in many parts of the United States, an increasing number of microbreweries have begun operations. These small breweries are designed to brew beer in limited quantities and cater to a specific taste or regional market. Although these breweries represent no real threat to national breweries such as Anheuser-Busch and miller (a unit of Philip Morris), they could carve out a significant local market presence in cities such as Seattle and San Francisco.

Benefits and Costs of Focus strategies

By finding and serving a narrow market niche, firms that practice focus strategies often can remain highly profitable, even when the broader industry appears to be unattractive. Firms that practice focus/specialization strategies look for a niche and avoid deviating from it. Concentration of resources and effort to serve and defend a niche makes the focused/ specialized firm less vulnerable to major changes in the industry's competitive environment. Yet, even a focus/specialized\\ion strategy brings its own set of advantages and disadvantages.

Advantages of Focus Strategies

The biggest advantage of a focus strategy is that the firm is able to carve a market niche against larger, broader-line competitors. Some firms pursuing this strategy have even been able to locate niches within niches (e.g. handcrafted, Oriental musical instruments), thus further insulating themselves from the attention and efforts of larger, industry-wide players that cannot serve the niche as well. Thus, defensibility and avoidance of direct, price-based competition are big advantages that accrue to a focus/specialization strategy.

In many cases, a focus/specialization strategy enables a firm to improve other sources of value-adding activities that contribute to cost or differentiation. Considers, for example, the case of McIlhenny Company. Its expertise with Tabasco sauces gives it some ability and detailed knowledge of how to make Bloody Mary mixes as well. Thus, focus/specialization strategies may enable firms to utilize their specialized distinctive competence or set of assets to create new niches. Solectron's growing expertise with electronics-based manufacturing from work outsourced by larger firms has given the firm valuable experience and even critical mass to take on larger projects that move beyond the personal computer industry and into other electronics segments, such as cellular phones and telecommunications equipment. Magna International's experience with bumpers and front-end systems has given it the capability to design entirely new subsystems and assemblies at cost and quality levels that are by some measures superior to that of in-house production by the Big Three automakers.

Disadvantages of focus Strategies.

The biggest disadvantage facing the focus/specialization strategy is the risk that the underlying market niche may gradually shift more toward characteristics of the broader market. Distinctive tastes and product characteristics may blur over time, thus reducing the defensibility of the niche. This may be particularly the case when tastes and preferences, once considered exotic or nouveau at an earlier period, become more widely accepted and even imitated by larger market segments. A related risk is the potential for broad-line competitors to develop new technological innovations or product features that may redefine the buying preferences of the niche. For example, the growing use of flexible, advanced manufacturing technology makes it possible for larger firms to produce ever-smaller quantities of products that could be used to serve a variety of market niches or segments. This is also already happening in the designer and leather clothing market, in which Levi

Strauss is now using cutting-edge computer-aided design(CAD) technologies, once relegated to industrial and engineering applications o create new one-of-a-kind clothing patterns and designs according to each individual customer's tastes. Also, larger broad-line competitors could become swifter and faster and faster in responding to market changes, thus enabling them to practice some variation of a focus/specialization strategy as well.

The Role of Distinctive Competence

To build and sustain competitive advantage, all three generic strategies require firms to develop a distinctive competence in performing its value-added activities. Recall that a distinctive competence is something a firm does especially well compare to its rivals. Developing a distinctive competence is a key pillar of competitive strategy. A well-designed strategy is one that develops a distinctive competence in some key activity and then leverages it create a competitive advantage over other firms. A firm's strategy if only valuable to the extent it builds distinction. The significance of a distinctive competence is that it endows the firm with a unique capability, skill, or resource that gives it an edge over its competitors. This edge is critical in pursuing new market or product opportunities in the environment.

Broad characterizations of a distinctive competence include the following: quality manufacturing process, superior service, fast product development, brand management techniques, specialized distribution systems, specialized knowledge of customer buying patterns, and technology-based or human resources skills and assets that are hard for rivals to duplicate. Investment in the firm's distinctive competence should be guided by the firm's underlying approach to building competitive advantage. Regardless of the specific type of nature of the distinctive competence, a firm needs to search for ways to improve it continuously over time. Firms need to be aware of potential substitutes or threats to its distinctive competence and to think of ways to reinforce, redefine, or rejuvenate it. Thus, the development and sustenance of a distinctive competence should be the foundation of any strategy formulation effort.

ACTUALIZATION

Strategic Application to Nordstrom

One of Nordstrom's current strategic challenges is how best to maintain its superb customer service, while deciding how best to reduce this cost structure through better inventory and distribution cost controls. Thus, Nordstrom must carefully balance its traditional intimate service approach with improved operations to attain cost parity with its rivals. Also, despite Nordstrom's reputation for superior service, many young customers feel the stores are too formal in their appearance and often lack the kind of cutting-edge fashions that ordinarily do not mix well with Nordstrom's traditional line f classic-cut clothing.

To attract these younger customers, Nordstrom in recent years began to tone down the formality of its displays and interior store décor, and it also started selling fashions targeted specifically for a much younger crowd. The attempt to win over this new audience may have seriously diluted Nordstrom's reputation for top-of-the-line quality, as customers' became confused about what Nordstrom was offering. Even more nimble competitors such as Neiman Marcus Group and Talbot's are beginning to make serious inroads into Nordstrom's traditional market base, as the boomer market becomes turned off from some of the avant-garde fashions designed for the twenty-something segment. However, it is boomer market that provides the vast majority of Nordstrom's current revenues.

A greater long-term threat to Nordstrom, though, is the renewed emphasis by larger retailing chains to produce better levels of customer service through buyer affiliation and reward programs, as well as improved training of sales personnel to enhance personal attention to customers. The larger chains are able to implement these steps as they continue to reap the benefits of cutting-edge computer-based inventory management systems that allow them to respond quickly to changing fashions and market needs. This emphasis on using advanced technology to lower inventory and distribution cost will serve the large retailing chains well, especially in economic downturns. As the larger chains adopt strategies that emphasize cost reduction, they will need to attract a large number of customers in order to pay down the fixed costs of making such technology investment.

As growing numbers of people seek better value from their purchases, even the larger chains such as May Department Stores and Federated will attract customers that once predominantly shopped at

Nordstrom. Thus, differentiation strategies do not allow a firm to endure a “war of attrition” for a long period, especially when the firm’s costs are significantly higher than that of its rivals.

An Emerging View of Strategy: Mass Customization for Best Value

Increasingly companies in every industry and from every part of the world need to find new ways to satisfy their customers’ quest for ever-increased value and performance. Although each of the basic generic strategies-low-cost leadership, differentiation, and focus-provides the basis for building a source of competitive advantage, the long-term viability of any single approach rests on a firm’s ability to provide new sources of value continuously. As an industry evolves and innovation flourished, firms must provide more value to their customers while controlling costs and even perhaps lowering their prices over the long term. With respect to the value chain firms will have to devise new, innovation solutions to create and deliver value and productivity in each and every stage of their business system. Finding new ways to accelerate the creation and delivery of improving value will become the next battleground for firms in all industries. Ideally, companies will begin to formulate and execute those businesses strategies that enable them to deliver unique sources of value and solutions to their customers quicker and faster, rather than simply a product or service that can be readily imitated or copied. The way firms crate and deliver a product or service will become just as important as the offering itself.

Our perspective is that reliance on any single, generic strategy (low-cost, differentiation, or focus)in itself will not endow the firm with a sustained capability to innovate new sources of value more quickly and more efficiently over time. Firms will need to provide a variety of different value “bundles” or solutions to their customers. Speed, rapid response, customized offerings, low cost, and innovation can no longer be trade-offs in future business strategies. In effect, competitive advantage will increasingly require firms to offer fat response and best source of value to each market segment or customer targeted.   However, each basic, generic strategy imposes a set of limitations and constraints that make it difficult for firms to respond rapidly to sudden changes in customer demand, technological improvements, or product/service features along some key dimension: speed, cost, or variety. Instead, we believe that other types of business strategies will likely emerge over the next several years that will come close to delivering a new, value-driven and value-solution concept of competitive advantage: mass customization.

Mass customization is an evolving strategic capability that allows firms to produce an increasing variety of products or services while simultaneously lowering their costs. At its best, mass customization seeks to combine the positive benefits of low-cost and differentiation strategies while reducing the negative effects. Mass customization, when understood and exploited, provides the basis for fast r response, creation of best value solutions, and a high degree of flexibility to serve new customers and segments with future innovations. In effect, a business strategy based on mass customization enables firms to reconcile and even remove some of the trade-offs that are conventionally associated with pursuing each generic strategy alone.

The principle behind mass customization rests on a growing set of advanced technological, distribution, and marketing capabilities that enable firms to produce products or services to smaller and smaller segments while simultaneously lowering their unit costs. Traditional manufacturing and service operations typically confronted an economic trade-off in which lower unit costs required a high degree of product or service standardization. Conversely, differentiation strategies often left the firm competitively vulnerable to rivals that could provide a comparable bundle of value at lower costs. However, mass customization is an increasingly viable way to avoid these trade-offs. Some of the most important economic drivers that facilitate the potential of mass customization strategies include (1) the rise of advanced manufacturing technology, (2) the rapid use of modular product design techniques, (3) the growth of the Internet as a distribution channel, and (4) market segmentation tolls and techniques (e.g. data mining) that enable forms to locate and uncover previously unnerved customer needs and market niches.

Advanced Manufacturing Technology

State-of- the-art advances in manufacturing technology, such as the introduction of computers into product design and factory work, have made it possible to substantially reduce the amount of time it takes to commercialize a new product from the lab to the market. Moreover, computers in manufacturing have also boosted quality significantly, as machines and processes are integrated through common databases and routines that simplify procedures and reduce the scope and potential of human error. Perhaps the most significant contribution of advanced manufacturing technologies to mass customization strategies is their ability to produce a wider scope, or envelope, of variety using the same design and production equipment to serve a growing number of market segments and differentiated needs. In effect, advanced manufacturing systems provide the basis to transfer the benefits of low-cost production (once confined to extremely standardized product designs) to an expended range of product offering and families. Thus, firms have the technical capability to produce more quantities in more ways that previously were not possible.

Modular Product Designs

In many industries, the design and manufacturing of products (and services) have taken on a new concept- that of modularity. Modularity refers to the capability of mixing and matching different components and product features together to create a customized offering. The key to successful modularity in product design is to ensure that the individual components that make up the final end product can be rearranged in any number of ways so as to increase variety. However, modularity requires that the underlying components and product features share a common set of design interfaces or "protocols" to guarantee that they can be mixed and matched without costly retooling or extensive modification. Connectivity among different parts that use standard linkages is key.

One company that has taken modularity as a core design competence is Mattel in the fiercely competitive toy industry. The company envisions that its young female customers will soon be able to custom-design their own dolls (e.g. Barbie) and other toys through modular choices of clothing, hair coloring, skin texture, and other desired attributes. Already, Mattle has produced large numbers of custom-ordered Barbied for major retailers that have special accounts with the firm (e.g., Toys "Us and organizations that want the doll for their own promotion packages).

Modularity of product and component designs is what drives dell Computer's fast-turnaround manufacturing capability. Dell generates tremendous revenues and profits from its ability to mix and match personal computer components according to what each individual customer wants. In effect, by maintaining a very flexible supply and manufacturing system. Dell can custom-build each computer and price it according to what the customer wants. All of the standardized components are made by key suppliers who design these parts according to computer industry specifications. These common standards (e.g., universal serial bus [USB] ports) allow for full interoperability across manufacturers and user applications (e.g. memory cards slots in laptop computers that can perform multiple functions)

Internet-Driven distribution Systems

The rise of the Internet as a powerful distribution channel over the past several years testifies to the enormous leverage that customers have over firms in choosing and purchasing their products and services. The growth and spread of the internet means that customers can become much closer to their firms and expect from them a level of speed and response that was previously not possible,. For example, firms in the airline, travel service, financial services, music distribution, and book retailing businesses are now facing new rivals that are using the Internet to circumvent preexisting barriers to entry to reach new customers (see Chapter 5 for an extended discussion of this topic).

The internet is a powerful economic driver that is now compelling firms to link up their product and service offerings more closely with their customers. Since customers effectively face very little switching costs when they surf the Web to find alternative product or service providers, it is incumbent upon firms to significantly upgrade and improve their distribution capabilities to exploit this new "real-time" virtual market place. The Internet has transformed the marketplace into a "marketplace" in which customers can freely select and demand the best possible "value bundle" "value solution" from firms willing to tailor and modify their offering according to individual taste.

Service industries have been the first to adopt the internet as a key vehicle to provide for mass customization strategies, but product-based firms are increasingly using the internet to get a better fell of what their customers want. In fact, some forms are moving ahead to use the internet to provide custom-ordered coupons for individuals who sing up for company-sponsored service. For example, a number of upstart internet-based forms are offering customers the ability to order CDs over the Web without the hidden markup charge by conventional retailers to cover their overhead cost. Also, some of the most innovative Web-based music outlets (e.g., RealNetworks) are beginning to allow customers to create their own customized music selections by directly downloading any number of recording by any series of performing artists (subject to legal restrictions on copyright and persimmons) onto their hard drives or rewritable compact disc systems (CD-R). Procter & Gamble is in the midst of offering special coupons and promotional discounts to customers through the Internet. Toy form Mattel is even suing the Internet to encourage young children to custom-order the toy and dolls they want according to their unique preferences. The data gathered from the Internet are then directly fed into Mattel's manufacturing and supply operations. Thus, the growing use of the Internet to capture each customer's individual preferences, combined with advanced manufacturing and modular product designs, create new possibilities for making mass customization strategies a reality for the next century.

New Market Segmentation Techniques

New statistical techniques developed by market research firms and computer software companies are new allowing marketers to identify previous hidden market segments and customer needs that were not easily found through traditional research techniques. For example, a new artificial intelligence program, known as data mining, enables firms to search for new market segments and latent demand for product and service offering that have not yet been developed or are in testing stages. Data mining allows companies to search for patterns through massive amounts of research data to find correlations and results that the human mind and more rigorous hypothesis testing previously excluded.

The use of computers and bar coding has made it much easier now to further identify segments within established segments. In other words, groups of consumers sharing similar purchasing and buying habits can be further defined and isolated into even smaller subgroups for the purposes of better identifying and capturing new ways to provide value. Through the use of new segmentation techniques, companies are no longer compelled to design a product that fits "an average customer' (as was the case with low-cost leadership strategies) but can now customize product attributes and features more aligned or in sync with the needs of much smaller market segments.

DISCUSSIONS

Building competitive advantage comes with both some benefits and limitations. As part of this presentation I shall attempt to look at some of these pros and cons.

15 Key Benefits of a Strategic Management System

1. Taking an organization-wide, proactive approach to a changing global world
2. Building an executive team that serves as a model of cross-functional or horizontal teamwork
3. Having an intense executive development and strategic orientation process

4. Defining focused, quantifiable outcomes measures of success
5. Making intelligent budgeting decisions
6. Clarifying your competitive advantage
7. Reducing conflict; empowering the organization
8. Providing clear guidelines for day-to-day decisions making
9. Creating a critical mass for change Clarifying and simplifying the barrage of management techniques
10. Empowering middle managers
11. Focusing everyone in the organization in the same overall framework
12. Clarifying and simplifying the barrage of management techniques
13. Empowering middle managers
14. Focusing everyone in the organization in the same overall framework
15. Speeding up implementation of the core strategies
16. Providing tangible tools for dealing with the stress of change [4]

Limitations of strategic management

Although a sense of direction is important, it can also stifle creativity, especially if it is rigidly enforced. In an uncertain and ambiguous world, fluidity can be more important than a finely tuned strategic compass. When a strategy becomes internalized into a corporate culture, it can lead to group think. It can also cause an organization to define itself too narrowly. An example of this is marketing myopia.

Many theories of strategic management tend to undergo only brief periods of popularity. A summary of these theories thus inevitably exhibits survivorship bias (itself an area of research in strategic management). Many theories tend either to be too narrow in focus to build a complete corporate strategy on, or too general and abstract to be applicable to specific situations. Populism or faddishness can have an impact on a particular theory's life cycle and may see application in inappropriate circumstances. See business philosophies and popular management theories for a more critical view of management theories.

In 2000, Gary Hamel coined the term **strategic convergence** to explain the limited scope of the strategies being used by rivals in greatly differing circumstances. He lamented that strategies converge more than they should, because the more successful ones get imitated by firms that do not understand that the strategic process involves designing a custom strategy for the specifics of each situation.

Ram Charan, aligning with a popular marketing tagline, believes that strategic planning must not dominate action. "Just do it!", while not quite what he meant, is a phrase that nevertheless comes to mind when combating analysis paralysis.

GENERAL RECOMMENDATIONS

Regardless of what product or service a firm offers, quality is key to building and sustaining competitive advantage and therefore should be a vital part of the firm's competitive strategy. Despite the numerous characterizations and definitions of quality, firms should view and design their own competitive strategies around the basic concept of customer defined quality. Customer-defined quality represents the best value a firm can put into its product and services for the different market segments and niches it serves. Every product for each market segment should offer and deliver the highest value to customers in that segment. These products or services should culminate in an optimal combination of cost, function utility, and value for that segment.

Efforts to manage quality require developing a set of strategies, setting goals and objectives along with action plans, and carrying out other steps in the strategic management process. An increasing number of senior managers are now discovering the strong link between quality and profitability. A quality orientation has become paramount in many companies not only because of fierce global competition but also because of the recognition that quality leads to a better reputation, more purchases, and a sustainable competitive advantage. A major study of excellent firms conducted by Peters and Waterman during the early 1980s found the most successful firms had an obsession with quality, service, and reliability of their products. Despite the utmost, paramount importance of quality, many U.S. firms are still struggling to achieve total quality in their products.
An emphasis on high quality works in two ways to sustain competitive advantage and profitability.

A strategy based on quality enhances market share, which in turn raise firm profitability in part because of the firm's ability to exploit some degree of economies of scale. Quality also works along another dimension; it enhances the possibilities for differentiation that in turn generate higher returns. In effect, regardless of the specific type of generic strategy firms pursue, quality is central to high performance and competitive advantage.

CONCLUSION: A NEW PERSPECTIVE

The fundamental nature of competition in many of the world's industries is changing.
The pace of this change is relentless and is increasing. Even determining the boundaries of an industry has become challenging. Consider, for example, how advances in interactive computer networks and telecommunications have blurred the boundaries of the entertainment industry. Today, networks such as ABC, CBS, Fox, NBC, and HOB compete not only among themselves, but also with AT&T, Microsoft, Sony, and others. Partnerships among firms in different segments of the entertainment industry further blur industry boundaries. For example, MSNBC is co-owned by NBC (which itself is owned by General Electrical) and Microsoft. With full-motion video and sound rapidly making their way to mobile devices, cellular telephones are also competitors for customers' entertainment expenditures. Wireless companies, for example, are partnering with the music industry to introduce music-playing capabilities into mobile phones. Entertainment giant Walt Disney Company is selling wireless-phone plans to children. That Disney videos can be streamed through phones is yet another example of the difficulty of determining industry boundaries.

Other characteristics of the 21st-century competitive landscape are noteworthy as well. Conventional sources of competitive advantage such as economies of scale and huge advertising budgets are not as effective as they once were. Moreover, the traditional managerial mind-set is unlikely to lead a firm to strategic values flexibility, speed, innovation, integration, and the challenges that evolve from constantly changing conditions. The conditions of the competitive landscape result in a perilous business world, one where the investments required to compete on a global scale are enormous and the consequence of failure are severe. Developing and implementing strategy remains an important element of success in this environment. It allows for strategic actions to be planned and to emerge when the environmental conditions are appropriate. It also helps to coordinate the strategies developed by business units in which the responsibility to compete in specific markets is decentralized.[6]

Hypercompetition is a [3]term often used to capture the realities of the 21st-century competitive landscape. Under conditions of hypercompetition, "assumptions of market stability are replaced by notions of inherent instability and change". Hypercompetition results from the dynamics of strategic maneuvering among global and innovative combatants. It is a condition of rapidly escalating competition based on price-quality positioning, competition to create new know-how and establish first-mover advantage, and competition to protect or invade established product or geographic markets. In a hypercompetitive market, firms often aggressively challenge their competitors in the hopes of improving their competitive position and ultimately their performance.[7]

Several factors create hypercompetitive environments and influence the nature of the 21st-century competitive landscape. The two primary drivers are the emergence of a global economy and technology, specifically rapid technological change.

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[6]***R.M. Grant, 2003, Strategic planning in a turbulent environment: Evidence from the oil majors, Strategic Management Journal, 24: 491-517***

7 **R. A. D'Aveni, 2004, Corporate spheres of influence, *MIT Sloan Management Review,* 45(4):38-46**

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