# 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

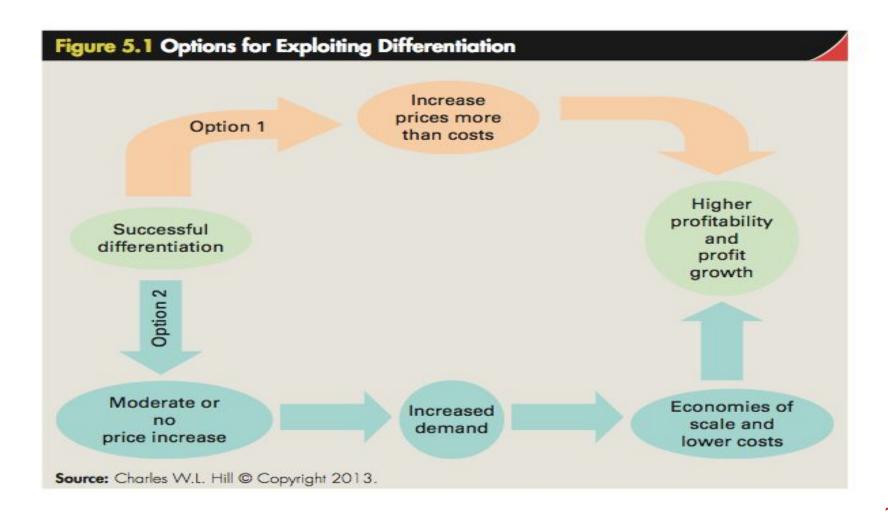
- Enables a company to:
  - gain a competitive advantage in commodity markets.
  - undercut rivals on price.
  - gain market share.
  - maintain or increase profitability.

### DIFFERENTIATION

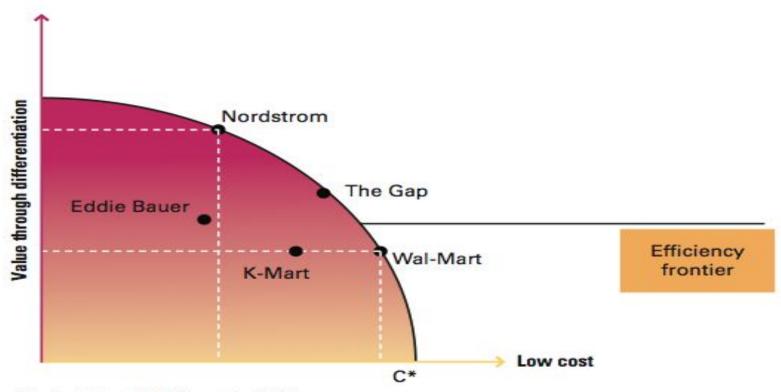
- Distinguishing oneself from rivals by offering something that they find hard to match.
- Product differentiation is achieved through:
  - superior reliability, functions, and features.
  - better design, branding, point-of-sale service, after sales service, and support.

#### 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 5.2 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.

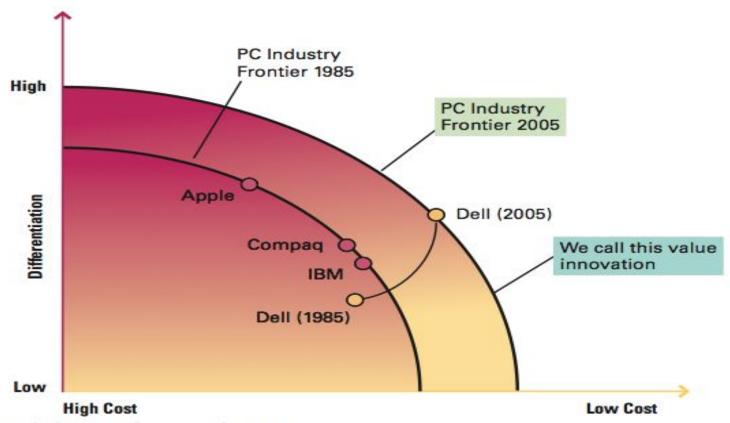
## THE DIFF./LOW-COST TRADEOFF

- 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