THEME 8:
GENERIC STRATEGIES

1. Introduction.
3. The Ansoff's approach: the Growth Matrix (market penetration, product development, market development, and diversification).
4. An integrating approach.
Hope is not a strategy, specially when internationalizing the company is the intention
Strategic Analysis: Compulsory Questions

- What business is the organisation in? manufacturing/retail, etc.
- Who do they compete with, and how do they compete?
- Who are the organisation’s stakeholders? Key stakeholders & their influence.
- What are the external drivers for change?
  - PEST model, macro environment.
  - Five Forces model, micro/industry environment.
- How does the organisation gain value?
  - Resource audit, tangible & intangible.
  - Value Chain and Value System analysis.
- Assess the balance in the corporate portfolio, BCG matrix.
- How should I compete? Porter’s generic strategies: low cost, differentiation, specialization.
- What are my strategic movements? Mergers/Acquisitions, etc.
**Mission - Vision - Values**

**PEST analysis**

**Competitive Forces**
- P.C.
- S
- C.C.
- B
- S.P.

**Value Chain:**
- activities & linkages
  - F.I.
  - T.D.
  - HH.RR.
  - PR.
- I.L. → OP. → O.L. → M&S → A-S.S.

**Value System (linkages):**
- other SBUs (synergies) & suppliers - buyers’ value chains

**Industry Attractiveness**
- (threats & opportunities)

**Company’s Competitive Position**
- (Resource-based View): cost advantage or uniqueness (strengths & weaknesses)

**Strategy formulation,**
- at three levels: C – B – F
# STRATEGY

<table>
<thead>
<tr>
<th>ELEMENTS</th>
<th>BUSINESS SCOPE</th>
<th>RESOURCES &amp; CAPABILITIES</th>
<th>COMPETITIVE ADVANTAGES</th>
<th>SYNERGIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>LEVELS</td>
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<tr>
<td>CORPORATE</td>
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<tr>
<td>BUSINESS</td>
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<tr>
<td>FUNCTION</td>
<td></td>
<td>(3)</td>
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<td>(3)</td>
</tr>
<tr>
<td>COMPETITIVE SITUATION</td>
<td>STRATEGIC ADVANTAGE</td>
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<tr>
<td>Broad (the whole sector)</td>
<td>Exclusivity perceived by the customer</td>
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<td></td>
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</tr>
<tr>
<td>Reduced (only one segment)</td>
<td>Position of low costs</td>
<td></td>
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</tr>
</tbody>
</table>

**PORTER’S APPROACH**

- **FOCUS** or **NARROW SEGMENTATION**
- **LEADERSHIP DIFFERENTIATION**
- **COMPETITIVE SITUATION**
- **COSTS LEADERSHIP**

**PORTER’S APPROACH**

- **FOCUS** or **NARROW SEGMENTATION**
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- **COMPETITIVE SITUATION**
- **COSTS LEADERSHIP**
THE LOW COST PHENOMENON

lowcostbeds.com
the trade’s favourite accommodation provider

lowcostholidays.com
now anyone can go anywhere

sidorme Quality Low Cost Hotels®

Two basic ways:
- Productivity.
- Economies of scale & learning/experience.
Die Zimmer

Jede Suite des Parkhotels bietet Ihnen bei minimalen Raumvolumen maximal möglichen Komfort, um Erholung und Entspannung zu gewährleisten.

Schlafkomfort

Stauraum
Der Stauraum unter und neben der Liegefläche bietet ausreichend Platz für allerlei Reisemöbel.

Anschlüsse
Ein Stromanschluss (220 Volt) ermöglicht rasches Aufhellen Ihrer Elektrogeräte, um die Digitas und das Mobiltelefon unterwegs nicht verdurstet zu lassen.
Be ready to rent with the best price.

SELECT CITY: España

PICK UP:
- Select City
- Select Station
- 03-03-2011: 12:00

DROP OFF:
- Select City
- Select Station
- 10-03-2011: 12:00

SEARCH YOUR CAR

CUSTOMER
- User: [blank]
- Password: [blank]

AGENCY
- Enterprise: [blank]
- Registry: [blank]

LOG IN PEPECAR

10€/day Ind. VAT.
plus 10€ of preparation tax per booking a Minicar 7 or more days in Madrid, Barcelona or Valencia.
## Costs Leadership

<table>
<thead>
<tr>
<th>Resources and Aptitudes</th>
<th>Organisational Requirements</th>
<th>Risks or Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Sustained investment of capital and favourable access to financial markets.</td>
<td>- Strict control of costs.</td>
<td>- Technological change that cancels out the experience gained or investment made.</td>
</tr>
<tr>
<td>- Special aptitudes for process engineering.</td>
<td>- Detailed and frequent control reports.</td>
<td>- Competitors who learn easily and rapidly.</td>
</tr>
<tr>
<td>- Close supervision of work and operations.</td>
<td>- Clearly defined organisation and responsibilities.</td>
<td>- Stagnation of the product or of the marketing.</td>
</tr>
<tr>
<td>- Products designed for ease of manufacturing.</td>
<td>- Incentives based on meeting quantitative objectives.</td>
<td>- Inflation of costs that annuls the previous price differential.</td>
</tr>
<tr>
<td>- Low cost of distribution.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Reading: “Designers on quest to build $12 computer”
<table>
<thead>
<tr>
<th>DIFFERENTIATION</th>
<th>RESOURCES AND APTITUDES</th>
<th>ORGANISATIONAL REQUIREMENTS</th>
<th>RISKS OR LIMITATIONS</th>
</tr>
</thead>
</table>
|                | -Significant aptitudes in marketing and in product engineering.  
                | -Strong investment in R&D. 
                | -Prestige in quality and technology. 
                | -Full cooperation of the distribution channels. 
                | -Long tradition in the sector, or a unique combination of aptitudes obtained in other business activities. |
|                | -Coordination between the functions of R&D, product development and marketing.  
                | -Qualitative assessments and incentives.  
                | -Capacity for understanding the market and how it changes.  
                | -Appropriate organisational structure for stimulating and rewarding creativity. |
|                | -Competitive levels of product prices, in accordance with a strategy of minimum global cost.  
                | -The customers no longer value the product's factors of differentiation.  
                | -As the industry matures, imitation reduces the perceived differentiation. |
Mention some brands for which you are willing to pay a premium price

[Images of Coca-Cola, Levi's, Qatar Airways, and Harley-Davidson]
## SPECIALISATION

<table>
<thead>
<tr>
<th>RESOURCES AND APTITUDES</th>
<th>ORGANISATIONAL REQUIREMENTS</th>
<th>RISKS OR LIMITATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>-Resources and aptitudes of special application and interest in the company's area of operation.</td>
<td>-Flexible and efficient organisation structure.</td>
<td>-The differences in costs compared with non-specialized companies are so wide that the advantages of specialisation are eliminated.</td>
</tr>
<tr>
<td>-Dominance of the relevant technology and of the engineering of the product.</td>
<td>-Corporate culture relevant and specific to its areas of specialisation (products and markets).</td>
<td>-The market in which the company is specialized reduces its differences with respect to the global market.</td>
</tr>
<tr>
<td>-Marketing capacity.</td>
<td>-Close coordination between functions.</td>
<td>-Other competitors are specialized in part of the market of the already specialized company.</td>
</tr>
<tr>
<td>-Ability in the use of limited resources.</td>
<td>-Rapid response to changes in the environment.</td>
<td></td>
</tr>
</tbody>
</table>
Introduction

Savera manufactures and distributes systems and provides services in the elevator industry. Based in Vera de Bidasoa (Navarre) and present in 5 continents, its target customers are multinational companies, with which long-term collaboration agreements are established. The strategy of Savera is namely to supply GLOBAL INTEGRAL SOLUTIONS.

**Integral**, because we accompany our customer from the initial system definition stage, through the collaboration between our respective R+D Departments, up to its subsequent implementation and final acceptance.

**Global in scope**, because it is based on a network of Service Centres with the back-up of production plants strategically located in main geographical areas.

Savera focuses its activities on the RIDE system.
A niche strategy within a declining industry

Reading: “Cassettes linger long after expected demise”
Segmentation variables

- Varieties of products.
- Types of purchaser.
- Distribution channels.
- Geographic areas.

Example: olive oil market.
## Segmentation matrix (1)

<table>
<thead>
<tr>
<th>VARIETIES OF PRODUCTS (QUALITY)</th>
<th>TYPE OF PURCHASER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olive Oil</td>
<td>Final customer (bottled product)</td>
</tr>
<tr>
<td>Virgin Olive Oil</td>
<td></td>
</tr>
<tr>
<td>Extra Virgin Olive Oil</td>
<td></td>
</tr>
</tbody>
</table>
### Segmentation matrix (2)

<table>
<thead>
<tr>
<th>VARIETIES OF PRODUCTS (QUALITY)</th>
<th>TYPE OF DISTRIBUTION CHANNEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olive Oil</td>
<td>Generic</td>
</tr>
<tr>
<td>Virgin Olive Oil</td>
<td></td>
</tr>
<tr>
<td>Extra Virgin Olive Oil</td>
<td></td>
</tr>
</tbody>
</table>
Combining segmentation matrixes (1+2)

<table>
<thead>
<tr>
<th>VARIETIES OF PRODUCTS (QUALITY)</th>
<th>TYPE OF DISTRIBUTION CHANNEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Virgin Olive Oil for final customers (bottled product)</td>
<td>Generic</td>
</tr>
<tr>
<td></td>
<td>Specific</td>
</tr>
<tr>
<td>Extra Virgin Olive Oil for final customers (bottled prod.)</td>
<td></td>
</tr>
</tbody>
</table>
## Segmentation matrix (3)

<table>
<thead>
<tr>
<th>VARIETIES OF PRODUCTS (QUALITY)</th>
<th>GEOGRAPHIC AREA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Virgin Olive Oil for final customers using a <em>generic</em></td>
<td></td>
</tr>
<tr>
<td>distribution channel</td>
<td>National Market</td>
</tr>
<tr>
<td>Extra Virgin Olive Oil for final customers using a <em>specific</em></td>
<td></td>
</tr>
<tr>
<td>distribution channel</td>
<td>(b)</td>
</tr>
<tr>
<td></td>
<td>(a)</td>
</tr>
</tbody>
</table>
The choice of a segment/s

<table>
<thead>
<tr>
<th>ATTRACTIVENESS:</th>
<th>(1) Structural attractiveness (competitive forces).</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(2) Size and growth.</td>
</tr>
<tr>
<td></td>
<td>(3) Position of the company.</td>
</tr>
<tr>
<td>INTERRELATIONSHIPS:</td>
<td>(4) Advantages in costs or in differentiation.</td>
</tr>
<tr>
<td></td>
<td>(5) Costs of coordination, of commitment and of inflexibility.</td>
</tr>
<tr>
<td>SUSTAINABILITY:</td>
<td>Against:</td>
</tr>
<tr>
<td></td>
<td>(6) Competitors with broader objectives.</td>
</tr>
<tr>
<td></td>
<td>(7) Imitation.</td>
</tr>
<tr>
<td></td>
<td>(8) Substitution.</td>
</tr>
</tbody>
</table>

within the same industry there are segments with different levels of attractiveness.
choose the most beneficial combination of segments.
your business scope should lead to a strong (defensible) position.
Example: olive oil market

<table>
<thead>
<tr>
<th>SEGMENTS / CRITERIA</th>
<th>ATTRACTIVENESS</th>
<th>INTERRELATIONS</th>
<th>SUSTAINABILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
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<tr>
<td>(a)</td>
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<td>(b)</td>
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<td>(c)</td>
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<td></td>
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<tr>
<td>(d)</td>
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</tbody>
</table>
Criticisms of Porter’s framework

- Hybrid strategies could be employed without “stuck in the middle”.
- Cost leadership alone does not sell products.
- Differentiation strategies can be used to increase sales volumes rather than to charge a premium price.
- Price can sometimes be used to differentiate.
- A “generic” strategy can not give a competitive advantage.
- Arguably, the resource based strategy has superseded this generic strategy framework.
“A company must produce at low cost, while also innovating; it must deploy the massed resources of a large corporation, while showing the entrepreneurial flair of a small start-up; it must achieve high levels of reliability and consistency, while also being flexible” (Grant, 2012).
# OPTIONS FOR GROWTH

<table>
<thead>
<tr>
<th>ANSOFF’S APPROACH</th>
<th>CURRENT MARKETS</th>
<th>NEW MARKETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>CURRENT PRODUCTS</td>
<td>Market Penetration</td>
<td>Market Development</td>
</tr>
<tr>
<td>NEW PRODUCTS</td>
<td>Product Development</td>
<td>Diversification</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ANSOFF’S APPROACH</th>
<th>CURRENT MARKETS</th>
<th>NEW MARKETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>CURRENT PRODUCTS</td>
<td>Expansion…</td>
<td>…of Markets</td>
</tr>
<tr>
<td>NEW PRODUCTS</td>
<td>…of Products</td>
<td>Diversification</td>
</tr>
</tbody>
</table>

**CASE STUDY:**

![visithuelva.com](https://via.placeholder.com/150)
# The Growth Matrix

<table>
<thead>
<tr>
<th>Sub-strategies</th>
<th>MARKETS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Existing</td>
</tr>
<tr>
<td><strong>PRODUCTS</strong></td>
<td></td>
</tr>
<tr>
<td>Existing</td>
<td><strong>Market Penetration:</strong></td>
</tr>
<tr>
<td></td>
<td>- Intensification.</td>
</tr>
<tr>
<td></td>
<td>- Relaunching.</td>
</tr>
<tr>
<td></td>
<td>- Imitation.</td>
</tr>
<tr>
<td></td>
<td>- Reduction of costs/prices.</td>
</tr>
<tr>
<td></td>
<td>- Disaggregation.</td>
</tr>
<tr>
<td>New</td>
<td><strong>Product Development:</strong></td>
</tr>
<tr>
<td></td>
<td>- New products (R&amp;D, innovation).</td>
</tr>
<tr>
<td></td>
<td>- New product lines.</td>
</tr>
<tr>
<td></td>
<td>- New services.</td>
</tr>
<tr>
<td></td>
<td><strong>Market Development:</strong></td>
</tr>
<tr>
<td></td>
<td>- New territories-INTERNATIONALIZATION.</td>
</tr>
<tr>
<td></td>
<td>- New segments of purchasers.</td>
</tr>
<tr>
<td></td>
<td>- New distribution channels.</td>
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<td></td>
<td>- New possibilities for utilization.</td>
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<tr>
<td></td>
<td><strong>Diversification:</strong></td>
</tr>
<tr>
<td></td>
<td>- Concentric (or related).</td>
</tr>
<tr>
<td></td>
<td>- By conglomerates (or unrelated).</td>
</tr>
</tbody>
</table>
INTERNATIONALIZATION & GLOBALIZATION

Inditex Global Presence 2008
INTERNATIONALIZATION & GLOBALIZATION

Reading: “China’s budding food industry faces scrutiny”
International Strategy Opportunities and Outcomes

Identify International Opportunities

Explore Resources and Capabilities

Use Core Competence

International Strategies

Increased Market Size
Return on Investment
Economies of Scale and Learning
Location Advantage

International Business-Level Strategy (*)
Multidomestic Strategy
Global Strategy
Transnational Strategy

Exporting
Licensing
Strategic Alliances
Acquisition
Establishment of New Subsidiary

Management Problems and Risks

Strategic Competitiveness Outcomes

Higher Performance Returns
Innovation

Management Problems and Risks

(*) Low cost or Differentiation.
Standardization vs Adaptation.
Multidomestic vs Global.
Strength of Market Drivers

- Aircraft
- Computers
- Automobiles
- Soft Drinks
- Toothpaste
- Retail Banking
- Book Publishing
- Baked Goods

Low - Multidomestic

High - Global
Corporate-Level International Strategies

Multi-Domestic Strategy

★ Strategy and operating decisions are decentralized to strategic business units (SBU) in each country.

★ Products and services are tailored to local markets.

★ Business units in each country are independent of each other.

★ It assumes markets differ by country or regions.

★ Focus on competition in each market.

★ Prominent strategy among European firms due to broad variety of cultures and markets in Europe.
**Corporate-Level International Strategies**

**Products are standardized across national markets.**

**Decisions regarding business-level strategies are centralized in the home office.**

**Strategic business units (SBU) are assumed to be interdependent.**

**Emphasizes economies of scale.**

**Often lacks responsiveness to local markets.**

**Requires resource sharing and coordination across borders (which also makes it difficult to manage).**
Corporate-Level International Strategies

Transnational Strategy

★ Seeks to achieve both global efficiency and local responsiveness.

★ Difficult to achieve because of simultaneous requirements for strong central control and coordination to achieve efficiency and local flexibility and decentralization to achieve local market responsiveness.

★ Must pursue organizational learning to achieve competitive advantage.
When is each strategy appropriate?

- **Global Strategy**
  - Low Need for Global Integration
  - Low Need for Local Market Responsiveness

- **Trans-national**
  - High Need for Global Integration
  - Low Need for Local Market Responsiveness

- **Multi-Domestic**
  - Low Need for Global Integration
  - High Need for Local Market Responsiveness
Effective Standardization

Coca-Cola

McDonalds
Barbie: The “All-American” Girl Goes Overseas

- Barbie is more than 40 years old.
- Sold in 130 countries.
- National adaptations:
  - Physical features.
  - Costumes.
  - Activity sets.
- Standardized physique:
  - Scaled to 6’2”, 110 lbs.
Effective Adaptation

- McMutton Pie in Australia.
- Wendy’s shrimp sandwich in Japan.
- Campbell’s non-condensed soups in the UK.
- Coca-Cola’s 175 ml containers in Japan.

Cadillac Seville
- 1997 Asian edition:
  - Right-hand drive, shorter seats, closer pedals, 10” shorter & retractable mirrors.
Limits to International Expansion (beyond political and economic risks)

Management Problems

- Cost of coordination across diverse geographical business units.
- Institutional and cultural barriers.
- Understanding strategic intent of competitors.
- The overall complexity of competition.
DIVERSIFICATION

Why? Growth, Profitability and Risk Reduction: Don‘t put all your eggs in one basket !!
Three **essential tests** for judging diversification (Porter):
- **The attractiveness test**: Is the target industry attractive? Use the 5-forces model to assess its attractiveness.
- **The cost-of-entry test**: Is the cost of the diversification worth it? Will the diversified firm create enough additional value to justify the cost?
- **The better-off test**: Does the diversification move produce opportunities for synergies? Will the company be better off after the diversification than it was before? How and why?

**Potential advantages:**
1. Economies of scope (cost savings from using a resource in multiple activities carried out in combination).
2. Internal market (for capital and staff).

**Reading: “Perils of diversification”**.
- The era of diversification, 50s-80s.
- Refocusing, 90s-onwards.
Because of its high risk, many companies attempting to diversify have led to failure. However, there are some good examples of successful diversification:

- **Virgin Group** moved from music production to travel and mobile phones.
- **Walt Disney** moved from producing animated movies to theme parks and vacation properties.
- **Canon** diversified from a camera-making company into producing an entirely new range of office equipment.
DIVERSIFICATION

Reading:
“Toyota tunes up violin-playing robot”
Diversification & Performance

The findings of empirical research:

- **How do diversified firms perform relative to specialised firms?**
  - No consistent, systematic relationship has been emerged.
  - High levels of diversification are associated with deteriorating profitability.
  - Timing is key.

- **Does related diversification outperform unrelated diversification?**
  - Diversification into related industries should be more profitable than diversification into unrelated industries.
  - Peters and Waterman’s golden rule: “Stick to the Knitting”.

Empirical studies have defined relatedness in terms of similarities:
- Operational relatedness.
- Strategic relatedness.
Related Diversification

- Businesses are distinct but their value chains possess strategic “fit” in operations, marketing, management, R&D, distribution, labor, etc.
- Therefore, they tend to exploit economies of scope.
- Tend to (historically) outperform unrelated diversifications.
Unrelated Diversification

- No common linkage or element of strategic fit among SBUs -- i.e., no meaningful value chain interrelationships.
- Dominant logic: spreads businesses risk over multiple industries, stabilizing corporate profitability (in theory).
- Strategic approach: any company that can be acquired on good financial terms & offers good prospects for profitability is a good business for diversification.
- Conglomerates (clusters of businesses under central, mainly financial, management control), such as GE.
Example: GE

- "Diversification helps to strengthen General Electric; when one business is going badly, the other goes well, which contributes to the stability and growth of the company". These words of Ricardo Artigas, Vice President of the General Electric Company, clearly reflect the sense behind this strategic option, the result of which is a company configured into twelve divisions:

AN INTEGRATING APPROACH

- Leadership in costs
- Differentiation

- Maintenance
- Growth
- Restructuring

- Internal
- External

- Expansion
- Diversification

- of Products
- of Markets
- Concentric
- Conglomerate

- Vertical Integration
- Horizontal Integration
AN INTEGRATING APPROACH

<table>
<thead>
<tr>
<th>GROWTH STRATEGIES</th>
<th>Strategic Advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Costs</td>
</tr>
<tr>
<td><strong>Internal</strong></td>
<td></td>
</tr>
<tr>
<td>Expansion</td>
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<td>Conglomerate</td>
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<td></td>
<td>Conglomerate</td>
</tr>
</tbody>
</table>

Readings from the textbook: Pascual & Lagasa - *internal growth based on diversification*; Fontaneda & La Casera - *external growth based on the expansion of products and markets*.
“Progress is when things get simpler, not more complicated”

Bruno Munari, Italian artist.