Strategy Formulation:
Situation Analysis and Business Strategy

Porter’s Generic Strategies
- Based on the IO Model
- Harvard 1980 and on
- Boston Consulting Group
- All U.S. MBA curricula
- Recruiters
- Common language

Business-Level Strategies

Cost Leadership
"Low-Cost" Strategy
- “No-frills” Products
- Large Target Markets
- Long Production Runs
  - Economies of scale
  - Economies of scope
- Uniform Packages
- Less R&D

Risks of a Low-Cost Strategy
- All or nothing strategy
- May lead to loss of attributes important to customers
- May be easily duplicated
- In mature markets cost differences decline
- May limit a firm’s ability to compete in other ways by focusing on just costs

Differentiation
“Uniqueness” Strategy
- Product Features
- After-Sale Service
- Desirable Image
- Technological Innovation
- Firm Reputation
- Manufacturing Consistency
- “Different”
Risks of a Differentiation Strategy

- Copying by competitors leads to everyone becoming average
- Adding features that are not valued
- Competitors may differentiate even more on a regional basis
- Customer learning may reduce the customer’s perception of the value of the firm’s differentiation

Focus Strategies
Serving Smaller Market Segments

- Can be more efficient than industry wide competitors
- Can meet specialized needs, serve ignored segment
- Narrow segments may be poorly served
- May have unique ability to serve a more narrow segment

Focus Strategies

- Focused Low Cost Strategy
  - Target smaller volume buyers in the industry
  - Example: Cooper Tires
- Focused Differentiation Strategy
  - Customized products for limited market segments
  - Example: Aircraft kits

Risks of Focus Strategies

- Smaller competitors may “outfocus” or concentrate on the most lucrative portion of the segment
- An industry wide competitor may compete in the segment
- Preferences within the segment may become homogenized with the larger market

Integrated Low-Cost/Differentiation

- Hybrid Strategy Lets Firms:
  - Adapt more quickly to environmental changes
  - Learn new skills and technologies
  - More effectively leverage core competencies across business units and product lines
- Mechanisms
  - Flexible Manufacturing Systems
  - Information Networks Across Firms
  - TQM Systems

Risks of Integrated Low-Cost/Differentiation Strategy

- Firm must simultaneously:
  - Focus on consistently reducing costs, and
  - Add valuable differentiated features, and
  - Avoid becoming stuck in the middle by doing neither well
- Very difficult to successfully implement this strategy
Quick Response Strategy

- Innovation of new products
- Products customized for individual needs
- Incremental product innovation
- Delivery speed of ordered products
- Responding to market reactions
- Customer inquiries

Risks of a Quick Response Strategy

- May not be compatible with technical or human systems available
- Speed is not equally important to all markets or customers
- Speed can create stress and uncertainty

Primary Factors for Changes in the Competitive Environment

- Increasing emphasis on globalization
- Advances in communications technology
- Technology and innovation have helped smaller firms become competitive
- National barriers are falling (GATT, NAFTA, EEC)

Competitive Dynamics and Competitive Rivalry

- Competitive Rivalry
  - Strategies are not implemented in isolation
  - Actions and reactions
- Competitive Actions
  - Strategic
  - Tactical

Competitive Actions

- Strategic Actions
  - Less frequently employed
  - Significant commitments of resources
  - Difficult to implement and reverse
- Tactical Actions
  - More frequently utilized
  - Involve fewer resources
  - Relatively easy to implement and reverse

Likelihood of Competitive Response

- Type of Action
- Reputation of Actor
- Market leaders => more responses
- Successful firms => more responses
- Risk-avoiders => more responses
- Price predators => fewer responses
- Dependence on the Market
- Competitor Resources
Four Categories of Tactics

**Offensive Tactics**
- Anticipatory Tactics
  - PREEMPTION: Pioneering, Intimidation, Capture
- Tactics of Engagement
  - ATTACK: Frontal Assault, Flanking Maneuver, Siege Warfare, Guerrilla Warfare

**Defensive Tactics**
- DETERRENCE: Structural Barriers, Expected Retaliation, Lowering Inducements for Attack, Diplomatic Peacekeeping
- RESPONSE: Counterattack, Fast follower, Retrenchment, Withdrawals

Timing and Performance Effects of Competitive Actions and Responses

- **First Movers**
  - Fast Second Movers
  - Average Second Movers
  - Late Movers

Timing of action response

Other Factors Affecting Rivalry and Competitive Dynamics

- Firm Size
- Speed of Competitive Actions and Competitive Responses
  - Cross-functional teams
- Innovation
- Quality

Product and Service Quality Dimensions

**Product Quality Dimensions**
- Performance
- Features
- Reliability
- Durability
- Conformance (standards)
- Serviceability
- Aesthetics (look & feel)
- Perceived quality (product image)

**Service Quality Dimensions**
- Timeliness
- Courtesy
- Consistency
- Convenience
- Completeness
- Accuracy

Effects of Firm Size, Order of Actions, Innovation, Quality on Firm Performance

- Firm Size
- Order
- Innovation
- Quality

The Cycle of Experience Effects

- Greater Market Share
- Higher Relative Sales Volume
- Higher Relative Production Volume
- More Rapid Progress Down the Experience Curve
- Faster Gains in Experience
- Higher Relative Prices
- Lower Relative Costs

Lower Relative Sales
Competition and Industry Life Cycle

- Emerging Industries
- Growth Industries
- Mature Industries

Time

Reasons for Strategic Alliances
- Gain access to new markets
- Enter new businesses
- Introduce new products
- Overcome trade barriers
- Avoid predatory competition
- Gain access to complementary resources
- Achieve economies of scale
- Pool resources, skills and risk capital to share R&D and risk of innovation

Types of Strategic Alliances
- Service alliances
- Opportunistic alliances
- Stakeholder alliances

Benefits of Strategic Alliances
- Cooperating with a partner to push the limits of technology
- Combining resources and capabilities
- Providing access to additional capital
- Gaining access to greater management capabilities
- Increasing opportunities for mutual success

Successful Strategic Alliances

Gaining Competitive Advantage

Partner → Understanding partner’s strategic orientation and intent → Cooperation → Partner

SWOT Analysis

Internal Environment
- Strengths
- Weaknesses

External Environment
- Opportunities
- Threats
Strategic Factor Analysis Summary (SFAS): Maytag as Example

<table>
<thead>
<tr>
<th>Key Strategic Factors</th>
<th>Weight</th>
<th>Rating</th>
<th>Weighted Score</th>
<th>Duration</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>S1 Quality Maytag culture</td>
<td>30</td>
<td>3</td>
<td>90</td>
<td>3</td>
<td>Quality key to success</td>
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<tr>
<td>S2 Experience top management</td>
<td>30</td>
<td>3</td>
<td>90</td>
<td>3</td>
<td>Name recognition</td>
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<tr>
<td>S3 Vertical integration</td>
<td>20</td>
<td>2</td>
<td>40</td>
<td>2</td>
<td>High sales</td>
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<tr>
<td>S4 Employee relations</td>
<td>20</td>
<td>2</td>
<td>40</td>
<td>2</td>
<td>High sales in N.A., U.K. and Australia</td>
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<tr>
<td>S5 Hoover's international orientation</td>
<td>15</td>
<td>1</td>
<td>15</td>
<td>1</td>
<td>Expansion of Hoover</td>
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<tr>
<td>W1 Process-oriented</td>
<td>40</td>
<td>4</td>
<td>160</td>
<td>5</td>
<td>Weak in the channels</td>
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<tr>
<td>W2 Distribution channels</td>
<td>40</td>
<td>4</td>
<td>160</td>
<td>5</td>
<td>Weak in the channels</td>
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<tr>
<td>W3 Financial position</td>
<td>30</td>
<td>3</td>
<td>90</td>
<td>3</td>
<td>Weak in the channels</td>
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<tr>
<td>W4 Global positioning</td>
<td>20</td>
<td>2</td>
<td>40</td>
<td>2</td>
<td>Weak in the channels</td>
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<tr>
<td>W5 Manufacturing facilities</td>
<td>10</td>
<td>1</td>
<td>10</td>
<td>1</td>
<td>Weak in the channels</td>
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<tr>
<td>O1 Economic integration of European Community</td>
<td>5</td>
<td>5</td>
<td>25</td>
<td>5</td>
<td>Weak in the channels</td>
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<tr>
<td>O2 Demographics favor quality</td>
<td>5</td>
<td>5</td>
<td>25</td>
<td>5</td>
<td>Weak in the channels</td>
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<tr>
<td>O3 Economic development, Asia</td>
<td>3</td>
<td>3</td>
<td>9</td>
<td>3</td>
<td>Weak in the channels</td>
</tr>
<tr>
<td>O4 Opening Eastern Europe</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>Weak in the channels</td>
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<tr>
<td>O5 Trend toward super stores</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>Weak in the channels</td>
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<tr>
<td>T1 Increasing government regulation</td>
<td>15</td>
<td>1</td>
<td>15</td>
<td>1</td>
<td>Weak in the channels</td>
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<tr>
<td>T2 Strong US competition</td>
<td>10</td>
<td>1</td>
<td>10</td>
<td>1</td>
<td>Weak in the channels</td>
</tr>
<tr>
<td>T3 Whirlpool &amp; Electrolux positioned for global economy</td>
<td>5</td>
<td>5</td>
<td>25</td>
<td>5</td>
<td>Weak in the channels</td>
</tr>
<tr>
<td>T4 New product advances</td>
<td>3</td>
<td>3</td>
<td>9</td>
<td>3</td>
<td>Weak in the channels</td>
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<tr>
<td>T5 Japanese companies</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>Weak in the channels</td>
</tr>
</tbody>
</table>

Total Score: 240

TOWS Matrix: Maytag as Example

<table>
<thead>
<tr>
<th>INTERNAL FACTORS (SFAS)</th>
<th>STRATEGIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Opportunities</td>
<td>SO Strategies</td>
</tr>
<tr>
<td>Internal Threats</td>
<td>ST Strategies</td>
</tr>
<tr>
<td>Internal Strengths</td>
<td>WT Strategies</td>
</tr>
<tr>
<td>Internal Weaknesses</td>
<td>WO Strategies</td>
</tr>
</tbody>
</table>

SO Strategies
- Use worldwide Hoover distribution channels for Hoover and Maytag
- Find joint venture partners in Eastern Europe and Asia

ST Strategies
- Acquire Raytheon's appliance business
- Merge with major Japanese home appliance company
- Sell off non-Maytag brands; defend Maytag's US niche.

WT Strategies
- Sell off Dixie-Narco division to reduce debt
- Emphasize cost reduction to reduce break-even point
- Sell out to Raytheon or a Japanese firm.