

GENERIC STRATEGIES

- I. **Introduction**-There are four generic strategies that companies can utilize in their efforts to realize competitive advantages.
- II. **What is a Competitive Advantage?** When a company achieves higher profits than the average competitor in the product market.
 - a. Example-Consider two companies that have similar revenues and similar costs and, therefore, similar profits. Well, a firm can achieve a competitive advantage in one of two ways. First, this company can somehow drop costs while keeping revenues constant. Second, the focal firm can increase revenues while holding costs constant.
- III. **Scope vs. Source**
 - a. For *scope*, the company could target a broad market or a narrow focused market.
 - b. For the *source* of competitive advantage, the company could either be the low cost leader or a differentiator.
 - c. The result is four quadrants that represent the four generic strategies: Overall cost leadership, differentiation, cost focus and differentiation focus.
- IV. **Cost Leadership**
 - a. Cost leadership is really about being the low cost provider for a broad customer base.
 - b. Examples-Dell Computer, Amazon.com and Walmart. These companies all offer products that are pretty similar to other products in the marketplace, but they have lower costs.
- V. **Differentiation**
 - a. Differentiation is really about doing something different that makes your broad market customers willing to pay more for your products and services.
 - b. Examples-Harley Davidson and Apple. These companies offer products that customers really want, and so customers are willing to pay high prices for them.
- VI. **Cost Focus**
 - a. Cost focus is basically a cost leadership strategy in a narrow or focused market.
 - b. Example-Aldi targets a very narrow and extremely price sensitive customer but only carries the products they can offer at a huge discount. They strategically locate close to traditional supermarkets so that these penny pinching extreme customers can still go somewhere close by to get the other things they need that Aldi does not carry.

VII. Differentiation Focus

- a. Differentiation focus is basically a differentiation strategy in a narrow or focused market.
- b. Example-Ducati motorcycles targets a narrow slice of performance focused motorcycle enthusiasts.
- c. Example-Ferrari targets performance focused drivers who have millions to play with.

VIII. Focusing on More Than One?

- a. Companies that try to do more than one frequently get “stuck in the middle.”
- b. When you cut costs aggressively then you also tend to cut product features and services.
- c. The main activities you engage in to become a cost leader are simply inconsistent in most cases with the main activities you engage in to be a differentiator.
- d. Getting stuck in the middle is a pretty unhappy place to be.
 - i. Your products aren’t different enough for customers to be willing to pay more
 - ii. They aren’t cheap enough for customers to choose you for your bargain prices.
 - iii. You are left without any clear unique value for the customers you are trying to woo.
- e. Some companies HAVE found ways to do both, it is usually wise to choose one and stick with it.